2007

Financial Information

CANADIAN UTILITIES LIMITED
An ATCO Company

Consolidated Financial Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Year Ended December 31, 2007

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation of the consolidated financial statements, management's discussion and analysis of financial condition and results of operations and other financial information relating to the Corporation contained in this annual report. The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles using methods appropriate for the industries in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in the annual report is consistent with that in the consolidated financial statements.

PricewaterhouseCoopers, our independent auditors, are engaged to express a professional opinion on the consolidated financial statements.

Management has established internal accounting and financial reporting control systems, which are subject to periodic review by the Corporation's internal auditors, to meet its responsibility for reliable and accurate reporting. Integral to these control systems are a code of ethics and management policies that provide guidance and direction to employees, as well as a system of corporate governance that provides oversight to the Corporation's operating, reporting and risk management activities.

The Board of Directors, through its Audit Committee comprised entirely of outside Directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, the internal auditors and the independent auditors to discuss auditing and reporting on financial matters, to assure that management is carrying out its responsibilities and to review and approve the consolidated financial statements. The auditors have full and free access to the Audit Committee and management.

N.C. South

N.C. Southern
President & Chief Executive Officer

KM Watson

K.M. Watson
Senior Vice President & Chief Financial Officer

AUDITORS' REPORT

TO THE SHARE OWNERS OF CANADIAN UTILITIES LIMITED

We have audited the consolidated balance sheets of Canadian Utilities Limited as at December 31, 2007 and 2006 and the consolidated statements of earnings and retained earnings, cash flows and comprehensive income for each of the years in the two year period ended December 31, 2007. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
February 19, 2008

CANADIAN UTILITIES LIMITED
CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS
(Millions of Canadian Dollars except per share data)

		Three Months Ended December 31		Year Ended December 31	
	Note	**2007**	2006	**2007**	2006
		(Unaudited)			
Revenues	3	**$ 657.1**	$ 671.1	**$2,404.9**	$2,430.4
Costs and expenses					
Natural gas supply		**24.8**	10.2	**42.1**	36.4
Purchased power		**13.6**	12.5	**49.9**	46.1
Operation and maintenance		**251.4**	243.5	**941.6**	950.3
Selling and administrative		**77.1**	74.9	**216.8**	207.5
Depreciation and amortization		**99.0**	95.6	**351.5**	348.5
Interest	6, 12	**55.0**	54.6	**217.4**	222.9
Franchise fees		**37.4**	42.4	**151.2**	150.4
		558.3	533.7	**1,970.5**	1,962.1
		98.8	137.4	**434.4**	468.3
Interest and other income	5	**21.3**	18.9	**64.3**	58.5
Earnings before income taxes		**120.1**	156.3	**498.7**	526.8
Income taxes	3, 6	**13.1**	47.4	**77.7**	167.1
		107.0	108.9	**421.0**	359.7
Dividends on equity preferred shares		**8.3**	8.9	**34.3**	35.8
Earnings attributable to Class A and Class B shares		**98.7**	100.0	**386.7**	323.9
Retained earnings at beginning of period as restated	7	**1,984.1**	1,741.1	**1,813.3**	1,721.9
		2,082.8	1,841.1	**2,200.0**	2,045.8
Dividends on Class A and Class B shares		**39.6**	36.3	**156.8**	176.7
Purchase of Class A shares and other direct charges to retained earnings	8	**7.2**	0.4	**7.2**	64.7
Retained earnings at end of period		**$2,036.0**	$1,804.4	**$2,036.0**	$1,804.4
Earnings per Class A and Class B share	15	**$ 0.78**	$ 0.80	**$ 3.08**	$ 2.57
Diluted earnings per Class A and Class B share	15	**$ 0.78**	$ 0.80	**$ 3.07**	$ 2.56
Dividends paid per Class A and Class B share	15	**$ 0.315**	$ 0.29	**$ 1.25**	$ 1.40

CANADIAN UTILITIES LIMITED
CONSOLIDATED BALANCE SHEET
(Millions of Canadian Dollars)

	Note	December 31 **2007**	2006
ASSETS			
Current assets			
Cash and short term investments	4, 18	**$ 747.2**	$ 798.8
Accounts receivable		**373.9**	362.3
Inventories		**101.8**	96.5
Regulatory assets	2	**10.2**	13.3
Derivative assets	21	**0.8**	-
Prepaid expenses		**29.8**	23.6
		1,263.7	1,294.5
Property, plant and equipment	9	**5,678.5**	5,426.1
Regulatory assets	2	**75.6**	43.2
Derivative assets	21	**73.3**	-
Other assets	10	**194.3**	229.7
		$7,285.4	$6,993.5
LIABILITIES AND SHARE OWNERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**$ 375.0**	$ 338.8
Income taxes payable	3, 6	**1.2**	22.7
Future income taxes	6	**1.7**	0.3
Regulatory liabilities	2	**-**	0.5
Derivative liabilities	21	**2.6**	-
Non-recourse long term debt due within one year	12	**65.4**	59.3
		445.9	421.6
Future income taxes	3, 6	**153.8**	194.7
Regulatory liabilities	2	**146.5**	148.8
Derivative liabilities	21	**3.3**	-
Deferred credits	13	**307.9**	229.0
Long term debt	12	**2,603.2**	2,411.5
Non-recourse long term debt	12	**478.1**	626.7
Equity preferred shares	14	**625.0**	636.5
Class A and Class B share owners' equity			
Class A and Class B shares	15	**516.9**	516.0
Contributed surplus	16	**1.9**	1.2
Retained earnings		**2,036.0**	1,804.4
Accumulated other comprehensive income	22	**(33.1)**	3.1
Retained earnings and accumulated other comprehensive income		**2,002.9**	1,807.5
		2,521.7	2,324.7
		$7,285.4	$6,993.5

N.C. South

N.C. SOUTHERN
DIRECTOR

JW Simpson

J.W. SIMPSON
DIRECTOR

CANADIAN UTILITIES LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
(Millions of Canadian Dollars)

	Note	Three Months Ended December 31 2007	Three Months Ended December 31 2006	Year Ended December 31 2007	Year Ended December 31 2006
		(Unaudited)			
Operating activities					
Earnings attributable to Class A and Class B shares		**$ 98.7**	$ 100.0	**$ 386.7**	$ 323.9
Adjustments for:					
Depreciation and amortization		**99.0**	95.6	**351.5**	348.5
Future income taxes	3	**(19.5)**	11.3	**(15.7)**	(1.6)
Deferred availability incentives		**4.5**	(41.0)	**2.2**	(20.2)
TXU Europe settlement - net of income taxes	4	**(2.5)**	(3.3)	**(11.1)**	(1.6)
Other		**(0.2)**	5.8	**12.3**	8.5
Funds generated by operations		**180.0**	168.4	**725.9**	657.5
Changes in non-cash working capital	17	**(52.9)**	(48.5)	**(19.0)**	(39.6)
Cash flow from operations		**127.1**	119.9	**706.9**	617.9
Investing activities					
Purchase of property, plant and equipment		**(212.6)**	(184.0)	**(700.8)**	(567.7)
Costs on disposal of property, plant and equipment		**(14.7)**	(4.3)	**(16.2)**	(10.4)
Contributions by utility customers for extensions to plant		**25.8**	20.1	**91.2**	81.3
Non-current deferred electricity costs		**(4.5)**	(8.7)	**(9.6)**	4.5
Changes in non-cash working capital	17	**5.2**	15.4	**12.3**	(18.3)
Income tax reassessment	6	**-**	-	**-**	(12.8)
Other		**(1.1)**	0.9	**(19.0)**	(4.1)
		(201.9)	(160.6)	**(642.1)**	(527.5)
Financing activities					
Issue of long term debt		**255.0**	320.0	**255.0**	355.5
Repayment of long term debt		**(50.0)**	(175.0)	**(50.0)**	(175.0)
Repayment of non-recourse long term debt	4	**(12.3)**	(12.6)	**(122.8)**	(64.6)
Issue of equity preferred shares by subsidiary	14	**-**	-	**115.0**	-
Redemption of equity preferred shares	14	**-**	-	**(126.5)**	-
Net issue (purchase) of Class A shares		**(7.7)**	1.9	**(6.4)**	(67.5)
Dividends paid to Class A and Class B share owners		**(39.6)**	(36.3)	**(156.8)**	(176.7)
Changes in non-cash working capital	17	**-**	(0.1)	**-**	(0.1)
Other		**(3.6)**	(2.6)	**(6.3)**	(3.9)
		141.8	95.3	**(98.8)**	(132.3)
Foreign currency translation		**(2.7)**	11.6	**(17.6)**	16.3
Cash position					
Increase (decrease)		**64.3**	66.2	**(51.6)**	(25.6)
Beginning of period		**682.9**	732.6	**798.8**	824.4
End of period		**$ 747.2**	$ 798.8	**$ 747.2**	$ 798.8

CANADIAN UTILITIES LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Millions of Canadian Dollars)

		Three Months Ended December 31		Year Ended December 31	
	Note	**2007**	2006	**2007**	2006
		(Unaudited)			
Earnings attributable to Class A and Class B shares		**$98.7**	$100.0	**$386.7**	$323.9
Other comprehensive income, net of income taxes:					
Cash flow hedges	22	**0.4**	-	**2.7**	-
Foreign currency translation adjustment	22	**(7.2)**	18.1	**(31.6)**	21.3
		(6.8)	18.1	**(28.9)**	21.3
Comprehensive income		**$91.9**	$118.1	**$357.8**	$345.2

CANADIAN UTILITIES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

(tabular amounts in millions of Canadian dollars)

1. Summary of significant accounting policies

Financial Statement Presentation

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of Canadian Utilities Limited and its subsidiaries, including a proportionate share of joint venture investments (the "Corporation"). Principal operations are Utilities (ATCO Electric, ATCO Gas, ATCO Pipelines), Power Generation (ATCO Power, Alberta Power (2000)) and Global Enterprises (ATCO Midstream, ATCO Frontec, ATCO I-Tek). Significant joint venture investments consist principally of power generation plants; a substantial portion of Power Generation's operations are conducted through joint ventures.

Effective January 1, 2007, the Corporation adopted the Canadian Institute of Chartered Accountants ("CICA") recommendations pertaining to financial instruments, which establish standards for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. These recommendations require that fair value be used to measure financial assets that are held for trading or available for sale, financial liabilities that are held for trading and all derivative financial instruments. Other financial assets, such as loans and receivables and investments that are held to maturity, and other financial liabilities are measured at their amortized cost. This change in accounting had the following effect on the consolidated financial statements for the three months and year ended December 31, 2007:

(a) Recognition of interest rate swaps, foreign currency forward contracts and certain natural gas purchase contracts as derivative assets and liabilities in the consolidated financial statements (see Note 21).
(b) Recognition of the fair value of a power generation revenue contract liability associated with the natural gas purchase contracts derivative asset (see Note 21).
(c) Recognition of a mark-to-market adjustment for the change in fair value of the natural gas purchase contracts derivative asset and recognition of an adjustment to the associated power generation revenue contract liability (see Note 5).
(d) Restatement of opening retained earnings at January 1, 2007 to recognize the prior years' earnings effect of the natural gas purchase contracts derivative asset and the associated power generation revenue contract liability, as well as the prior years' earnings effect of accounting for certain financial assets and financial liabilities at amortized cost using the effective interest method (see Note 7).
(e) Reclassification of deferred financing charges from other assets to long term debt and non-recourse long term debt (see Note 12).

Effective January 1, 2007, the Corporation adopted the CICA recommendations pertaining to hedges, which establish standards for the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. The purpose of hedge accounting is to ensure that gains, losses, revenues and expenses from effective hedging relationships are recorded in earnings in the same period. This change in accounting had no effect on the consolidated financial statements for the three months and year ended December 31, 2007.

Effective January 1, 2007, the Corporation adopted the CICA recommendations regarding the reporting and disclosure of comprehensive income. Comprehensive income consists of changes in the equity of the Corporation from sources other than the Corporation's share owners, and includes earnings of the Corporation, the foreign currency translation adjustment relating to self-sustaining foreign operations and unrealized gains and losses on changes in fair values of available-for-sale assets and effective cash flow hedging instruments. Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income but are excluded from earnings of the period. Comprehensive income is disclosed in a separate statement in the consolidated financial statements.

1. Summary of significant accounting policies (continued)

Effective January 1, 2007, the Corporation adopted the CICA recommendations regarding the presentation of equity and changes in equity. These recommendations require separate presentation of the components of equity, including retained earnings, accumulated other comprehensive income, contributed surplus, share capital and reserves, and the changes therein. As a result of this change in accounting, the Corporation has included a reconciliation of accumulated other comprehensive income in the notes to the consolidated financial statements (see Note 22). In accordance with the recommendations, comparative figures have been adjusted to incorporate the foreign currency translation adjustment into accumulated other comprehensive income.

Effective January 1, 2007, the Corporation adopted the CICA recommendations that prescribe the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. Adoption of these recommendations had no effect on the consolidated financial statements for the three months and year ended December 31, 2007, except for the disclosure of accounting changes that have been issued by the CICA but have not yet been adopted by the Corporation because they are not effective until a future date (see Future Accounting Changes below).

Certain comparative figures have been reclassified to conform to the current presentation.

Rate Regulation

ATCO Electric and its subsidiaries, Northland Utilities (NWT), Northland Utilities (Yellowknife) and Yukon Electrical, the ATCO Gas and ATCO Pipelines divisions of ATCO Gas and Pipelines Ltd. and the Battle River and Sheerness generating plants of Alberta Power (2000), all of which are wholly owned subsidiaries of Canadian Utilities Limited's wholly owned subsidiary, CU Inc., are collectively referred to in these consolidated financial statements as the "regulated operations". Accounting for rate regulated operations is described in Note 2.

Use of Estimates

The preparation of the Corporation's consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. On an on-going basis, management reviews its estimates, particularly those related to depreciation and amortization methods, useful lives and impairment of long-lived assets, amortization of deferred availability incentives, asset retirement obligations, employee future benefits and the fair values of financial instruments, using currently available information. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates.

Revenue Recognition

For regulated operations, revenues are recognized in a manner that is consistent with the underlying rate design as mandated by the regulator.

Revenues from ATCO Gas' regulated distribution of natural gas include variable charges, which are recognized on the basis of meter readings upon delivery of natural gas to customers and include an estimate of usage not yet billed, and fixed charges, based on the provision of the distribution service during the period

Revenues from ATCO Electric's regulated distribution of electricity include variable charges, which are recognized on the basis of meter readings upon delivery of electricity to customers and include an estimate of usage not yet billed, and fixed charges, based on the provision of the distribution service during the period. Revenues for the use of ATCO Electric's regulated transmission facilities are based on an annual tariff and are recognized evenly throughout the year.

Revenues from ATCO Pipelines' regulated transmission of natural gas are recognized on the basis of contractual arrangements. For certain services, revenues are recognized on the basis of meter readings upon delivery of natural gas to customers and include an estimate of usage not yet billed.

1. **Summary of significant accounting policies** (continued)

Revenues from regulated sales and distribution of natural gas and electricity by other regulated operations, excluding Alberta Power (2000), are recognized upon delivery, primarily on the basis of meter readings, and include an estimate of usage not yet billed.

Revenues from generating plants are recognized upon delivery of output or upon availability of delivery as prescribed by contractual arrangements. Incentives and penalties associated with Alberta Power (2000)'s Power Purchase Arrangements ("PPA") are recognized as described under the accounting policy for deferred availability incentives.

Revenues from ATCO Midstream's natural gas storage and processing capacity are recognized on the basis of contractual arrangements, and revenues from the sale of natural gas liquids are recognized upon delivery.

Revenues from the supply of contracted services are recorded by the percentage of completion method; full provision is made for any anticipated loss. Other revenues are recognized when products are delivered or services are provided.

Natural Gas Supply

Natural gas supply expense for regulated operations, which consists of natural gas volumes purchased for sales to customers, is based on actual costs incurred.

Natural gas supply expense for ATCO Midstream, which consists of natural gas volumes purchased for natural gas liquids extraction and sales to third parties, is based on actual costs incurred.

Purchased Power

Purchased power expense for regulated operations in the Yukon Territory and the Northwest Territories is based on the actual cost of electricity purchased. The amount included in customer rates in the Yukon Territory is based on actual costs and in the Northwest Territories is based on forecast cost. Revenues are adjusted for variances from forecast cost, and the variances are deferred until such time as approval from the regulator is obtained for refund to or collection from customers.

Income Taxes

The regulated operations follow the method of accounting for income taxes that is consistent with the method of determining the income tax component of their rates. When future income taxes are not provided in the income tax component of current rates, such future income taxes are not recognized to the extent that it is expected that they will be recovered from customers through inclusion in future rates.

Other subsidiaries follow the liability method of accounting for income taxes. Under this method, future tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax liabilities and assets are measured using enacted and substantively enacted tax rates. The effect on future tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs.

Cash and Short Term Investments

Short term investments consist of certificates of deposit and bankers' acceptances with maturities generally of 90 days or less at purchase.

Inventories

Inventories are valued at the lower of average cost or net realizable value.

1. Summary of significant accounting policies (continued)

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and unamortized contributions by utility customers for extensions to plant.

Regulated operations include in property, plant and equipment an allowance for funds used during construction at rates approved by the Alberta Utilities Commission ("AUC") for debt and equity capital. Property, plant and equipment in the other subsidiaries include capitalized interest incurred during construction.

Certain regulated additions are made with the assistance of non-refundable cash contributions from customers when the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements. These contributions are amortized on the same basis as, and offset the depreciation charge of, the assets to which they relate.

Depreciation is provided on assets on a straight-line basis over their estimated useful lives. Depreciation rates for regulated assets, excluding Alberta Power (2000)'s generating plants, are approved by the AUC and include a provision for future removal costs and site restoration costs (see the accounting policy for asset retirement obligations below). On retirement of these depreciable regulated assets, the accumulated depreciation is charged with the cost of the retired unit, net disposal costs and site restoration costs.

Property, plant and equipment and intangible assets with finite lives are tested for recoverability whenever events or changes in circumstances indicate a possible impairment. An impairment of property, plant and equipment and intangible assets with finite lives is recognized in earnings when the asset's carrying value exceeds the total cash flows expected from its use and eventual disposition. The impairment loss is then calculated as the difference between the asset's carrying value and its fair value, which is determined using present value techniques.

Deferred Financing Charges

Issue costs of long term debt are amortized over the life of the debt using the effective interest method. Issue costs of preferred shares relating to regulated operations are amortized over the expected life of the issue and issue costs of preferred shares relating to other subsidiaries are charged to retained earnings. Unamortized premiums and issue costs of redeemed long term debt and preferred shares relating to regulated operations are amortized over the life of the issue funding the redemption. The Corporation's deferred financing charges pertaining to long term debt have been reclassified from other assets to long term debt and non-recourse long term debt in accordance with the CICA recommendations for financial instruments (see Note 12).

Deferred Availability Incentives

Under the terms of the PPA's, the Corporation is subject to an incentive/penalty regime related to generating unit availability. Incentives are paid to the Corporation by the PPA counterparties for availability in excess of predetermined targets, whereas penalties are paid by the Corporation to the PPA counterparties when the availability targets are not achieved.

Accumulated incentives in excess of accumulated penalties are deferred. For any of the individual PPA's, should accumulated incentives plus estimated future incentives exceed accumulated penalties plus estimated future penalties, the excess will be amortized to revenues on a straight-line basis over the remaining term of the PPA's. Should accumulated penalties plus estimated future penalties exceed accumulated incentives plus estimated future incentives, the shortfall will be expensed in the year the shortfall occurs.

Asset Retirement Obligations

Asset retirement obligations are legal obligations associated with the retirement of tangible long lived assets. To the extent that they can be quantified, these obligations are measured and recognized at fair value, which is determined using present value techniques.

1. Summary of significant accounting policies (continued)

An asset retirement obligation is recorded as a liability in deferred credits, with a corresponding increase to property, plant and equipment. The liability is accreted over the estimated time period until settlement of the obligation, with the accretion expense included in depreciation and amortization. The asset is depreciated over its estimated useful life.

Asset retirement obligations for regulated natural gas and electric transmission and distribution assets are not recognized as the Corporation expects to use the assets in service for an indefinite period. As such, no final removal date can be determined and, consequently, a reasonable estimate of the related retirement obligations cannot be made at this time. Asset retirement obligations have been recorded for the regulated and non-regulated electricity generating plants and the natural gas liquids extraction and processing plants.

Long Term Debt Due Within One Year

When the Corporation intends to refinance long term debt due within one year on a long term basis and there is a written undertaking from an underwriter to act on the Corporation's behalf with respect thereto, or sufficient capacity exists under long term bank loan agreements to issue commercial paper or assume bank loans, then long term debt due within one year is classified as long term.

Derivative Financial Instruments

In conducting its business, the Corporation uses various instruments, including forward contracts, swaps and options, to manage the risks arising from fluctuations in exchange rates, interest rates and commodity prices. All such instruments are used only to manage risk and not for trading purposes.

CICA recommendations require the recognition and measurement of derivative instruments embedded in host contracts that were issued, acquired or substantively modified on or after January 1, 2003. Derivative instruments embedded in host contracts that were issued, acquired or substantively modified prior to January 1, 2003 have not been identified and recognized in the consolidated financial statements as permitted by the recommendations.

The Corporation designates each derivative instrument as either a hedging instrument or a non-hedge derivative:

(a) A hedging instrument is designated as either:
   (i) a fair value hedge of a recognized asset or liability or,
   (ii) a cash flow hedge of either:
      - a specific firm commitment or anticipated transaction or,
      - the variable future cash flows arising from a recognized asset or liability.

   At inception of a hedge, the Corporation documents the relationship between the hedging instrument and the hedged item, including the method of assessing retrospective and prospective hedge effectiveness. At the end of each period, the Corporation assesses whether the hedging instrument has been highly effective in offsetting changes in fair values or cash flows of the hedged item and measures the amount of any hedge ineffectiveness. The Corporation also assesses whether the hedging instrument is expected to be highly effective in the future.

   A hedging instrument is recorded on the consolidated balance sheet at fair value. Payments or receipts on a hedging instrument that is determined to be highly effective as a hedge are recognized concurrently with, and in the same financial category as, the hedged item. Subsequent changes in the fair value of a fair value hedge are recognized in earnings concurrently with the hedged item. For a cash flow hedge, the effective portion of changes in fair value is recognized in other comprehensive income and is subsequently transferred to earnings concurrently with the hedged item, whereas the portion of the changes in fair value that is not effective at offsetting the hedged exposure is recognized in earnings.

   If a hedging instrument ceases to be highly effective as a hedge, is de-designated as a hedging instrument or is settled prior to maturity, then the Corporation ceases hedge accounting prospectively for that instrument; for a cash flow hedge, the gain or loss deferred to that date remains in accumulated other comprehensive income and is transferred to earnings concurrently with the hedged item. Subsequent changes in the fair value of that derivative instrument are recognized in earnings.

1. **Summary of significant accounting policies** (continued)

If the hedged item is sold, extinguished or matures prior to the termination of the related hedging instrument, or if it is probable that an anticipated transaction will not occur in the originally specified time frame, then the gain or loss deferred to that date for the related hedging instrument is immediately transferred from accumulated other comprehensive income to earnings.

Hedge gains or losses that were recognized in other comprehensive income are added to the initial carrying amount of a non-financial asset or non-financial liability when:
(i) an anticipated transaction for a non-financial asset or non-financial liability becomes a specific firm commitment for which fair value hedge accounting is applied or,
(ii) a cash flow hedge of an anticipated transaction subsequently results in the recognition of the non-financial asset or non-financial liability.

(b) A non-hedge derivative instrument is recorded on the consolidated balance sheet at fair value and subsequent changes in fair value are recorded in earnings.

The Corporation applies settlement date accounting to the purchases and sales of financial assets. Settlement date accounting implies the recognition of an asset on the day it is received by the Corporation and the recognition of the disposal of an asset on the day that it is delivered by the Corporation. Any gain or loss on disposal is also recognized on that day.

Transaction costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities that are not held for trading are added to the fair value of such assets or liabilities at time of initial recognition.

Employee Future Benefits

The Corporation accrues for its obligations under defined benefit pension and other post employment benefit plans. Costs of these benefits are determined using the projected benefits method prorated on service and reflects management's best estimates of investment returns, wage and salary increases, age at retirement and expected health care costs.

Pension plan assets at the end of the year are reported at market value. The expected long term rate of return on plan assets is determined at the beginning of the year on the basis of the long bond yield rate at the beginning of the year plus an equity and management premium that reflects the plan asset mix. Expected return on plan assets for the year is calculated by applying the expected long term rate of return to the market related value of plan assets, which is the average of the market value of plan assets at the end of the preceding three years.

Accrued benefit obligations at the end of the year are determined using a discount rate that reflects market interest rates on high quality corporate bonds that match the timing and amount of expected benefit payments.

Experience gains and losses and the effect of changes in assumptions in excess of 10% of the greater of the accrued benefit obligations or the market value of plan assets, adjustments resulting from plan amendments and the net transitional liability or asset, which arose upon the adoption in 2000 of the current accounting standard, are amortized over the estimated average remaining service life of employees.

Pursuant to an AUC decision effective January 1, 2000, the regulated operations, excluding Alberta Power (2000), are required to expense contributions for other post employment benefit and certain other defined benefit pension plans as paid. The differences between the amounts accrued and paid are deferred in non-current regulatory assets and liabilities.

Employer contributions to the defined contribution pension plans are expensed as paid.

1. Summary of significant accounting policies (continued)

Stock Based Compensation Plans

The Corporation expenses stock options granted on and after January 1, 2002; no compensation expense is recorded for stock options granted prior to January 1, 2002 as permitted by GAAP. The Corporation determines the fair value of the options on the date of grant using an option pricing model and recognizes the fair value over the vesting period of the options granted as compensation expense and contributed surplus. Contributed surplus is reduced as the options are exercised and the amount initially recorded in contributed surplus is credited to Class A and Class B share capital.

No compensation expense is recognized when share appreciation rights are granted. Prior to vesting, compensation expense arising from an increase or decrease in the market price of the shares over the base value of the rights is accrued equally over the remaining months to the date of vesting. After that date, compensation expense arising from an increase or decrease in the market price of the shares is recognized monthly in earnings.

Foreign Currency Translation

Assets and liabilities of self-sustaining foreign operations are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date and revenues and expenses are translated at the average monthly rates of exchange during the year. Gains or losses on translation of self-sustaining foreign operations are included in accumulated other comprehensive income in share owners' equity.

Monetary assets and liabilities of integrated foreign operations, as well as non-monetary assets carried at market value, are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Other non-monetary assets and non-monetary liabilities are translated at rates of exchange in effect when the assets were acquired or liabilities incurred. Revenues and expenses are translated at the average monthly rates of exchange during the year; depreciation and amortization are translated at rates of exchange consistent with the assets to which they relate. Gains or losses on translation of integrated foreign operations are recognized in earnings.

Transactions undertaken by Canadian operations that are denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Monetary items and non-monetary items that are carried at market value arising from a transaction denominated in a foreign currency are adjusted to reflect the rate of exchange in effect at the balance sheet date. Gains or losses on translation of such monetary and non-monetary items are recognized in earnings.

Future Accounting Changes

The CICA has issued new accounting recommendations for capital disclosures which require disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital. These recommendations are effective for the Corporation beginning January 1, 2008.

The CICA has issued new accounting recommendations for disclosure and presentation of financial instruments which require disclosures of both qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of risks arising from financial instruments to which the Corporation is exposed. These recommendations are effective for the Corporation beginning January 1, 2008.

The CICA has issued new accounting recommendations for measurement and disclosure of inventories which provide guidance on the determination of cost and its subsequent recognition as an expense, including any writedown to net realizable value, and on the cost formulas that are used to assign costs to inventories. The adoption of these recommendations is not expected to have a material impact on the earnings or assets of the Corporation. These recommendations are effective for the Corporation beginning January 1, 2008.

1. Summary of significant accounting policies (continued)

The CICA has removed a temporary exemption in its accounting recommendations that permitted assets and liabilities arising from rate regulation to be recognized and measured on a basis other than in accordance with the primary sources of GAAP. The Corporation is evaluating the possibility of using standards issued by the Financial Accounting Standards Board in the United States that allow for the recognition and measurement of rate regulated assets and liabilities as another source of Canadian GAAP. The CICA has also issued new recommendations that will require the recognition of future income tax assets and liabilities as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to future customers. These recommendations are effective for the Corporation beginning January 1, 2009, and will be applied prospectively. The amount of unrecorded future income tax liabilities of the regulated operations at December 31, 2007 is $159.4 million.

In 2006, the CICA announced that accounting standards in Canada are to converge with International Financial Reporting Standards ("IFRS"). The Corporation will need to begin reporting under IFRS in the first quarter of 2011 with comparative data for the prior year. IFRS uses a conceptual framework similar to GAAP, but there could be significant differences on recognition, measurement and disclosures that will need to be addressed. The Corporation is currently assessing the impact of these standards on its financial statements.

2. Accounting for rate regulated operations

Nature and economic effects of rate regulation

ATCO Electric, ATCO Gas and ATCO Pipelines (the "utilities") are regulated primarily by the AUC, which, effective January 1, 2008, succeeded the Alberta Energy and Utilities Board as regulator for the utilities industry. The AUC administers acts and regulations covering such matters as rates, financing, accounting, construction, operation and service area.

The Battle River and Sheerness generating plants of Alberta Power (2000) were regulated by the AUC until December 31, 2000 but are now governed by legislatively mandated PPA's that were approved by the AUC. These plants are included in regulated operations primarily because the PPA's are designed to allow the owners of generating plants constructed before January 1, 1996 to recover their forecast fixed and variable costs and to earn a return at the rate specified in the PPA's. Each plant will become deregulated upon the earlier of one year after the expiry of its PPA or a decision to continue to operate the plant. For PPA's expiring prior to 2019, Alberta Power (2000) has one year after the expiry of a PPA to determine whether to decommission the generating plant in order to fully recover plant decommissioning costs or to continue to operate the plant and be responsible for the decommissioning costs. For PPA's expiring after 2018 decommissioning costs are the responsibility of the plant owner. Each PPA is to remain in effect until the earlier of the last day of the estimated life of the related generating plant or December 31, 2020.

The utilities are subject to a cost of service regulatory mechanism under which the AUC establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment, or rate base. Whereas actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

Rate base for each utility is the aggregate of the AUC approved investment in property, plant and equipment, less accumulated depreciation, and unamortized contributions by utility customers for extensions to plant, plus an allowance for working capital. The utilities earn a return on rate base intended to meet the cost of the debt and preferred share components of rate base and to provide share owners with a fair return on the common equity component of rate base.

2. Accounting for rate regulated operations (continued)

The AUC approves rates of return for the debt and preferred share components of rate base based on the actual or forecast weighted average cost of each utility's debt and preferred shares and establishes the capital structure for each utility. On July 2, 2004, the AUC established a standardized approach for determining the rate of return on common equity for each utility regulated by the AUC. This rate of return will be adjusted annually by 75% of the change in long term Government of Canada bond yield as forecast in the November Consensus Forecast, adjusted for the average difference between the 10 year and 30 year Government of Canada bond yields for the month of October as reported in the National Post. The generic return on equity determined on an annual basis in accordance with the generic cost of capital decision applies to each year of the test period in the utilities' applications. If no rate applications are filed for a particular year, then there will be no adjustment to the common equity rate of return for that year. The rate of return was 8.93% for 2006, 8.51% for 2007 and has been set at 8.75% for 2008.

Under the cost of service methodology, the utilities seek approval for their revenue requirement either through submission of general rate applications to the AUC or a negotiated settlement process with interested parties. In the latter case, the AUC monitors the negotiated settlement process and any agreement that is reached is subject to AUC approval. The AUC may approve interim rates or approve the recovery of costs on a placeholder basis, subject to final determination.

Financial statement effects of rate regulation

Certain items in these consolidated financial statements are accounted for differently than they would be in the absence of rate regulation. CICA recommendations do not require that assets and liabilities arising from rate regulation be recognized and measured in accordance with the primary sources of GAAP.

Where regulatory decisions dictate, the utilities defer certain costs or revenues as assets or liabilities on the balance sheet and record them as expenses or revenues in the earnings statement as they collect or refund amounts through future customer rates. Any adjustments to these deferred amounts are recognized in earnings in the period that the AUC renders a decision concerning these adjustments.

Circumstances in which rate regulation affects the accounting for a transaction or event are described below. For these regulatory items, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the regulator in determining the item's treatment for rate setting purposes, and, unless specifically indicated, is indeterminate.

2. Accounting for rate regulated operations (continued)

The regulatory assets and liabilities comprise the following:

	2007	2006
Regulatory assets – current:		
Deferred electricity costs	**$ 1.5**	$ 1.7
Current income tax savings associated with future income tax refund to customers	**2.0**	-
Other regulatory assets [(1)]	**6.7**	11.6
	$ 10.2	$ 13.3
Regulatory assets – non-current:		
Regulatory other post employment benefits asset (Note 20)	**$ 32.3**	$ 27.6
Deferred electricity costs	**17.4**	7.1
Current income tax savings associated with future income tax refund to customers	**7.0**	-
Deferred hearing costs [(1)]	**4.0**	1.4
Reserves for injuries and damages	**1.5**	2.0
Other regulatory assets [(1)]	**13.4**	5.1
	$ 75.6	$ 43.2
Regulatory liabilities – current:		
Other regulatory liabilities [(1)]	**$ -**	$ 0.5
Regulatory liabilities – non-current:		
Regulatory pension liability (Note 20)	**$110.0**	$118.7
Deferred royalty credits	**23.1**	19.7
Deferred electricity cost recoveries	**7.0**	6.2
Deferred hearing costs [(1)]	**-**	0.4
Reserves for injuries and damages	**2.1**	2.8
Other regulatory liabilities [(1)]	**4.3**	1.0
	$146.5	$148.8

(1) Amortization of certain regulatory assets and liabilities, which was recorded in depreciation and amortization, amounted to $7.7 million (2006 – $14.7 million).

Employee future benefits

The Corporation accrues for its obligations under defined benefit pension and other post employment benefit plans. The regulatory asset (liability) reflects an AUC decision, effective January 1, 2000, to record costs of employee future benefits in the utilities when paid rather than accrued. The variances between the amounts paid and accrued for each of the defined benefit pension plans and the other post employment benefit plans will vary depending on the performance of plan assets and the actuarial valuations of plan obligations. These variances will be deferred until the plans are paid, settled or terminated.

GAAP requires that the variances between the amounts accrued and paid be recognized as an expense or reduction in expense in the period in which they are accrued. Consequently, defined benefit pension plan cost in 2007 would have been $7.8 million higher (2006 $19.5 million higher), and other post employment benefit plan cost in 2007 would have been $2.9 million higher (2006 – $3.5 million higher), in the absence of rate regulation.

Upon the adoption of the current accounting standard in 2000, the utilities had recorded deferred pension assets of $23.0 million. The utilities have been earning an AUC approved rate of return on these assets through customer rates as the assets form part of the utilities' AUC approved rate base. In the absence of rate regulation, the utilities would not be able to earn a return on these assets. Consequently, revenues in 2007 would have been $1.6 million lower (2006 – $1.7 million lower). On October 11, 2006, the AUC issued a decision that approved recovery of these assets for a nine-year period commencing January 1, 2005 and permitted the utilities to continue to earn an AUC approved rate of return on the unrecovered portion of these assets over the recovery period. In 2007, the utilities amortized $2.6 million (2006 – $5.1 million) of the deferred pension asset.

2. Accounting for rate regulated operations (continued)

Deferred electricity costs (recoveries)

Variances between ATCO Electric's actual and forecast transmission access payments may arise due to changes in tariffs charged by the Alberta Power Pool. The amount included in customer rates is based on forecast cost. Revenues are adjusted for changes in tariffs, and the variances are deferred until approval from the AUC is obtained for refund to or collection from customers, which is expected to occur in the following year. GAAP requires that revenues be based on the rates approved by the AUC and not adjusted for variances between forecast and actual costs.

In Alberta, major transmission capital projects are planned by the Alberta Power Pool and directly assigned to one of the transmission facility owners in the province. Revenue requirement includes a return on forecast rate base. Whereas actual capital costs may vary from forecast capital costs, variances may arise between the return on forecast rate base and the return on actual rate base. Revenues are adjusted for these variances, and the variances are deferred until approval from the AUC is obtained for refund to or collection from the Alberta Power Pool, which is expected to occur in the following year. GAAP requires that revenues be based on the rates approved by the AUC and not adjusted for variances between the returns on forecast and actual rate base.

Variances between ATCO Electric's actual and forecast income tax provision may arise due to changes in enacted and substantively enacted tax rates. The amount included in customer rates is based on forecast tax rates. Revenues are adjusted for changes in enacted and substantively enacted tax rates, and the variances are deferred until approval from the AUC is obtained for refund to or collection from customers, which is expected to occur in the following year. GAAP requires that revenues be based on customer rates approved by the AUC and not adjusted for variances between forecast and actual tax rates.

Consequently, revenues in 2007 would have been $9.4 million lower (2006 – $1.2 million lower) in the absence of rate regulation.

Current income tax savings associated with future income tax refund to customers

The AUC has directed ATCO Electric to change its income tax methodology for federal purposes, whereby, effective January 1, 2007, ATCO Electric no longer recognizes future income taxes, and to refund to customers the future income taxes of $34.4 million collected under the previously allowed tax methodology (see Note 3). As a result of this decision, ATCO Electric recorded a reduction in future income tax liabilities of $34.4 million and a liability to customers of $49.3 million in the third quarter of 2007, offset by a regulatory asset of $14.9 million which represents current income tax savings to be realized in future periods. There was no effect on earnings as revenues and income taxes were both initially reduced by $34.4 million. There will also be no effect on earnings in future periods as the current income tax savings realized in future periods will be offset by a reduction in revenues as the regulatory asset is reversed.

In the fourth quarter of 2007, the liability to customers and the regulatory asset were reduced by $0.7 million due to a reduction in future income tax rates. Furthermore, in December 2007, ATCO Electric refunded $16.1 million of the liability to transmission customers, thereby realizing $5.2 million of current income tax savings, which further reduced revenues, and reducing the future income taxes to be refunded by $10.9 million. The total reduction in revenues and income taxes in 2007 was $39.6 million.

ATCO Electric will be refunding the remaining $32.5 million to distribution customers over a five year period commencing in 2008, of which $6.7 million is included in current liabilities and $25.8 million is included in deferred credits (see Note 13). As these amounts are refunded, ATCO Electric will realize the remaining $9.0 million of current income tax savings and eliminate the remaining $23.5 million of future income taxes to be refunded. GAAP requires that revenues not be adjusted for the current income tax savings to be realized in future periods.

Consequently, revenues for 2007 would have been $9.0 million lower in the absence of rate regulation. Assets of $2.0 million are included in current regulatory assets and $7.0 million are included in non-current regulatory assets in the balance sheet.

2. Accounting for rate regulated operations (continued)

Deferred hearing costs

The utilities incur hearing costs on an ongoing basis associated with various AUC regulatory proceedings. These costs are comprised primarily of legal and consulting expenses incurred by the utilities in addition to costs incurred by intervenor groups that have been reimbursed by the utilities as directed by the AUC. Hearing costs are deferred to the balance sheet and are expensed using AUC approved annual amounts that are collected through customer rates. Variances between the approved annual amounts and actual costs incurred are deferred until the next general rate application or until a specific application is made to the AUC requesting recovery from or refund to customers. GAAP requires that hearing costs be expensed in the period in which they are incurred. Consequently, expenses in 2007 would have been \$3.0 million higher (2006 – \$6.8 million lower) in the absence of rate regulation.

Reserves for injuries and damages

The AUC has approved the use of reserves for injuries and damages by the utilities as a means of self-insurance. The reserves for injuries and damages are established based on annual amounts approved by the AUC to be expensed by each utility and collected through customer rates. Variances between the approved annual amounts and actual costs incurred are deferred until the following general rate application or until a specific application is made to the AUC requesting recovery from or refund to customers. GAAP requires that claims be expensed in the period in which they are incurred. Consequently, expenses in 2007 would have been \$1.2 million higher (2006 – \$3.6 million lower) in the absence of rate regulation.

For Alberta Power (2000), reserves for injuries and damages are recoverable under the terms of the PPA's on a straight line basis through 2008. GAAP requires that claims be expensed in the period in which they are incurred. Consequently, expenses in 2007 would have been \$1.0 million lower (2006 – \$1.0 million lower) in the absence of rate regulation.

Deferred royalty credits

Under the terms of PPA's, the compensation for certain royalties incurred by Alberta Power (2000) for coal supply are averaged over the term of each PPA. As such, royalty costs incurred are deferred and expensed on the same average cost basis as reflected in the underlying PPA revenues. GAAP requires that royalty costs be expensed in the period in which they are incurred. Consequently, expenses in 2007 would have been \$3.4 million lower (2006 – \$1.6 million lower) in the absence of rate regulation.

Other regulatory assets and liabilities

Other regulatory assets and liabilities include the following:

a) On December 13, 2006, the AUC issued a decision approving the distribution of the proceeds from the sale of the Red Deer Operating Centre, which occurred in 2005, to ATCO Gas. GAAP requires that gains and losses related to asset dispositions be recognized in the period the disposition was made. Consequently, revenues in 2006 would have been \$1.0 million lower in the absence of rate regulation.

b) ATCO Pipelines has received AUC approval to defer the variances between actual and AUC approved forecast revenues and costs associated with the movement (receipt or delivery) of natural gas between ATCO Pipelines' system and other connected pipeline systems. ATCO Pipelines has applied for approval to recover these deferral account balances in its general rate application which was filed with the AUC on October 1, 2007. GAAP requires that actual revenues and costs be recognized in the period in which they are earned or incurred. Consequently, revenues in 2007 would have been \$0.1 million higher (2006 – \$0.9 million higher) and expenses would have been \$0.2 million lower (2006 – \$0.6 million lower) in the absence of rate regulation. Assets of \$2.5 million and \$0.2 million (2006 – \$2.7 million and \$0.2 million) are included in current regulatory assets and non-current regulatory assets, respectively, and liabilities of \$0.9 million are included in non-current regulatory liabilities (2006 – \$0.5 million in current regulatory liabilities and \$0.3 million in non-current regulatory liabilities).

2. **Accounting for rate regulated operations** (continued)

c) ATCO Pipelines has received AUC approval to establish a deferral account for the Salt Cavern Storage facility to collect (i) the revenue requirements for return on rate base and associated income taxes related to the necessary working capital for the natural gas in storage, and (ii) the gains or losses associated with the sale of natural gas in the market upon withdrawal from storage. ATCO Pipelines is required to submit an application to the AUC, either separately or in conjunction with a general rate application for that particular year, requesting recovery from or refund to customers of the deferral amount should the deferral account exceed $2.0 million at the end of the annual injection/withdrawal cycle on March 31 of a particular year. ATCO Pipelines has applied for approval to recover this deferral account balance in its general rate application which was filed with the AUC on October 1, 2007. GAAP requires that actual revenues and costs be recognized in the period in which they are earned or incurred. Consequently, revenues in 2007 would have been $2.2 million lower (2006 – $2.6 million lower) in the absence of rate regulation. Assets of $5.9 million are included in non-current regulatory assets (2006 – $3.7 million) in the balance sheet.

d) ATCO Pipelines has received AUC approval to establish deferral accounts to collect the costs and revenues arising from load balancing transactions. Load balancing requires the purchase or sale of natural gas to maintain appropriate operating pressures on ATCO Pipelines' North and South transmission pipeline systems. Should the deferral account for either North or South exceed $2.0 million, ATCO Pipelines may submit an application to the AUC requesting recovery from or refund to customers of that particular deferral amount. GAAP requires that actual revenues and costs be recognized in the period in which they are earned or incurred. Consequently, revenues in 2007 would have been $4.7 million higher (2006 – $8.9 million higher expenses) in the absence of rate regulation. Assets of $4.2 million are included in current regulatory assets in the balance sheet (2006 – $8.9 million).

e) ATCO Electric, ATCO Gas and ATCO Pipelines have provided interest free market differential loans to employees when relocating; however, ATCO Electric's revenue requirement includes a recovery from customers for imputed interest on these loans. Effective January 1, 2007, the CICA recommendations regarding the measurement of financial assets require that these loans be measured at fair value, resulting in a reduction in their carrying amount. ATCO Electric defers the variances between the fair value and face value of the loans as a regulatory asset. GAAP requires that the variances be recorded as compensation expense upon issue of the loans, with subsequent accretion according to the effective interest method over their respective terms. Consequently, revenues for 2007 would have been $1.1 million lower in the absence of rate regulation. Assets of $2.5 million are included in non-current regulatory assets.

Other items affected by rate regulation

The AUC permits an allowance for funds used ("AFU"), based on each utility's weighted average cost of capital, to be included in rate base. AFU is also included in the cost of property, plant and equipment for financial reporting purposes, and is depreciated as part of the total cost of the related asset, based on the expectation that depreciation expense, including the AFU component, will be approved for inclusion in future customer rates. Since AFU includes preferred share and common equity components, it exceeds the amount allowed to be capitalized in similar circumstances in the absence of rate regulation.

The utilities and the generating plants of Alberta Power (2000) follow the method of accounting for income taxes that is consistent with the method of determining the income tax component of its rates. When future income taxes are not included in the income tax component of current rates, such future income taxes are not recognized to the extent that they will be recovered from customers through inclusion in future rates. GAAP requires the recognition of all future income tax liabilities and future tax assets in the absence of rate regulation (see Note 6).

3. Regulatory matters

On September 22, 2007, ATCO Electric received a decision on its General Tariff Application for 2007 and 2008 which was filed with the AUC in November 2006. The decision established the amount of revenue ATCO Electric can recover through its rates for electric distribution and transmission service provided to its customers for 2007 and 2008. The effect of the decision on the earnings of ATCO Electric was not material, as higher revenues primarily resulting from increased investment in capital expenditures and previously approved interim customer rates were offset by lower allowed rate of return on common equity (8.51% in 2007 versus 8.93% in 2006) and other adjustments.

The decision also directed ATCO Electric to change its income tax methodology for federal purposes, whereby, effective January 1, 2007, ATCO Electric no longer recognizes future income taxes, and to refund to customers the future income taxes of $34.4 million collected under the previously allowed tax methodology. As a result of this decision, ATCO Electric recorded a reduction in future income tax liabilities of $34.4 million and a liability to customers of $49.3 million in the third quarter of 2007, offset by a regulatory asset of $14.9 million which represents current income tax savings to be realized in future periods. There was no effect on earnings as revenues and income taxes were both initially reduced by $34.4 million. There will also be no effect on earnings in future periods as the current income tax savings realized in future periods will be offset by a reduction in revenues as the regulatory asset is reversed.

In the fourth quarter of 2007, the liability to customers and the regulatory asset were reduced by $0.7 million due to a reduction in future income tax rates. Furthermore, in December 2007, ATCO Electric refunded $16.1 million of the liability to transmission customers, thereby realizing $5.2 million of current income tax savings, which further reduced revenues, and reducing the future income taxes to be refunded by $10.9 million. The total reduction in revenues and income taxes in 2007 was $39.6 million.

ATCO Electric will be refunding the remaining $32.5 million to distribution customers over a five year period commencing in 2008, of which $6.7 million is included in current liabilities and $25.8 million is included in deferred credits (see Note 13). As these amounts are refunded, ATCO Electric will realize the remaining $9.0 million of current income tax savings (see Note 2) and eliminate the remaining $23.5 million of future income taxes to be refunded.

In January 2006, ATCO Gas received a decision on its general rate application which was filed with the AUC in May 2005 for the 2005, 2006 and 2007 test years. The decision established the amount of revenue ATCO Gas can recover through distribution rates for natural gas distribution service to its customers over the period of 2005 to 2007. The decision also approved the return on common equity as determined by the AUC's standardized rate of return methodology. The rate of return on common equity was 8.93% in 2006 and 8.51% for 2007. The final impact of the decision is subject to the outcome of an existing process regarding the pricing of services provided by ATCO I-Tek. A benchmarking report was received on January 23, 2008, and an application is anticipated to be made to the AUC by the end of February 2008 to finalize the placeholder costs. A decision from the AUC is expected before the end of the second quarter of 2008.

In November 2007, ATCO Gas filed a general rate application with the AUC for 2008 and 2009 requesting, among other things, increased revenues to recover increased financing, depreciation, and operating costs associated with increased rate base in Alberta. ATCO Gas has filed an application requesting interim adjustable rates pending the AUC's decision on the general rate application. In December 2007, ATCO Gas received a decision from the AUC approving interim adjustable rate increases amounting to 50% of ATCO Gas' requested revenue increase. A decision from the AUC is not expected until the third quarter of 2008.

In October 2007, ATCO Pipelines filed a general rate application for 2008 and 2009 requesting, among other things, increased revenues to recover increased financing, depreciation and operating costs associated with an increased rate base in Alberta. A decision from the AUC is not expected until the fourth quarter of 2008. In November 2007, ATCO Pipelines filed an application requesting interim adjustable rates pending the AUC's decision on the general rate application. In December 2007, ATCO Pipelines received a decision from the AUC approving interim adjustable rate increases amounting to 40% of ATCO Pipelines' requested revenue increase.

The Corporation has a number of other regulatory filings and regulatory hearing submissions before the AUC for which decisions have not been received. The outcome of these matters cannot be determined at this time.

4. TXU Europe settlement

On November 19, 2002, an administration order was issued by an English Court against TXU Europe Energy Trading Limited ("TXU Europe") which had a long term "off take" agreement for 27.5% of the power produced by the 1,000 megawatt Barking generating plant in London, England, in which the Corporation, through Barking Power, has a 25.5% equity interest. Barking Power had filed a claim for damages for breach of contract related to TXU Europe's obligations to purchase 27.5% of the power produced by the Barking generating plant. Following negotiations with the administrators, an agreement was reached with respect to Barking Power's claim.

In settlement of its claim, Barking Power received distributions of £144.5 million (approximately $327 million) in 2005, of which the Corporation's share was $83.1 million, and distributions of £34.8 million (approximately $71 million) in 2006, of which the Corporation's share was $18.2 million. Income taxes of approximately $28.5 million relating to the distributions have been paid.

The Corporation's share of this settlement is being recognized in earnings in equal monthly amounts over the remaining term of the TXU Europe contract to September 30, 2010. Based on the foreign currency exchange rate in effect at December 31, 2007, earnings after income taxes of approximately $10 million per year have yet to be recognized. These earnings will be dependent upon foreign currency exchange rates in effect at the time that the earnings are recognized.

On May 31, 2007, £95.0 million of the TXU proceeds, of which the Corporation's share was $52.7 million, were applied to Barking Power's non-recourse long term debt.

5. Interest and other income

	2007	2006
Interest	**$46.4**	$39.3
Allowance for funds used by regulated operations	**9.7**	9.3
Gains on dispositions of property, plant and equipment and other investments	**3.2**	8.3
Gain on natural gas purchase contracts derivative asset (Note 21)	**13.5**	-
Loss on power generation revenue contract liability (Note 21)	**(9.4)**	-
Cash flow hedge losses	**(0.5)**	-
Other	**1.4**	1.6
	$64.3	$58.5

6. Income taxes

The income tax provision differs from that computed using the statutory tax rates for the following reasons:

	2007		2006	
Earnings before income taxes	**$498.7**	%	$526.8	%
Income taxes, at statutory rates	**$160.2**	**32.1**	$171.2	32.5
Part VI.1 tax benefit	**(15.6)**	**(3.1)**	-	-
Change in method of accounting for future income taxes in certain regulated operations	**(34.4)**	**(6.9)**	(4.0)	(0.8)
Unrecorded future income taxes relating to regulated operations	**(4.9)**	**(1.0)**	2.5	0.5
Change in future income taxes resulting from reduction in tax rates	**(14.9)**	**(3.0)**	(12.2)	(2.3)
Future income taxes recorded at less than current statutory rates	**(3.6)**	**(0.7)**	(1.5)	(0.3)
Foreign tax rate variance	**(3.6)**	**(0.7)**	(2.0)	(0.4)
Non-deductible interest on foreign financing	**1.4**	**0.3**	1.3	0.2
ATCO Gas tax reassessments	**(8.8)**	**(1.8)**	(1.2)	(0.2)
H.R. Milner income tax reassessment	**-**	**-**	7.4	1.4
Resource allowance	**-**	**-**	(1.6)	(0.3)
Crown royalties and other non-deductible Crown payments	**-**	**-**	0.7	0.1
Other	**1.9**	**0.4**	6.5	1.3
	77.7	**15.6**	167.1	31.7
Current income taxes	**112.6**		183.0	
Future income tax recoveries	**$ (34.9)**		$ (15.9)	

The future income tax liabilities (assets) comprise the following:

	2007	2006
Property, plant and equipment	**$185.2**	$230.6
Deferred assets and liabilities	**(33.5)**	(35.5)
Tax loss carryforwards	**(0.6)**	(0.1)
Derivative financial instruments	**3.4**	-
Other	**1.0**	-
	155.5	195.0
Less: Amounts included in current future income taxes	**1.7**	0.3
	$153.8	$194.7

At December 31, 2007, unrecorded future income tax liabilities of the regulated operations amounted to $159.4 million and unrecorded future income tax assets of other operations amounted to $0.8 million. The liabilities include $4.7 million in respect of Alberta Power (2000)'s generating plants, which will be recovered through future payments received in respect of the PPA's.

On June 15, 2007, an amendment to tax legislation pertaining to the taxation of preferred share dividends paid by corporations (Part VI.1 tax) received third reading in the House of Commons. The Canada Revenue Agency ("CRA") has been assessing corporate tax returns based on this proposed change since January 1, 2003, resulting in a reduction of taxes paid to the CRA. As this change is now considered to have been substantively enacted, the Corporation recorded a reduction to current income tax expense related to years prior to 2007 of $15.6 million. Funds generated by operations increased by $15.6 million, offset by a similar reduction in changes in non-cash working capital, leaving the Corporation's cash position unchanged.

6. **Income taxes** (continued)

In the fourth quarter of 2007, ATCO Gas successfully appealed previous CRA reassessments which resulted in an $8.8 million decrease in income taxes and an increase in interest income, net of income taxes, of $0.7 million for an overall increase to earnings of $9.5 million. These ATCO Gas CRA reassessments applied to the 1999 to 2006 taxation years and allowed ATCO Gas to treat previously reported capital outlays as current expenditures for income tax purposes.

In 2006, the CRA issued a reassessment for Alberta Power (2000)'s 2001 taxation year. The CRA's reassessment treats the proceeds received from the sale of the H.R. Milner generating plant to the Alberta Balancing Pool as income rather than as a sale of an asset. The Corporation has appealed the reassessment to the Tax Court of Canada. The full impact of the reassessment was a $12.4 million increase in interest and income tax expense, a $12.4 million decrease in earnings, and a $28.8 million payment associated with the tax and interest assessed. It is expected that $16.4 million of this cash payment will be recovered by reducing income taxes payable through higher capital cost allowance claims.

There are tax loss carryforwards of $0.4 million for a Canadian subsidiary corporation and $4.6 million for a foreign subsidiary corporation for which no tax benefit has been recorded. The losses for the Canadian subsidiary corporation begin to expire in 2010 and the losses for the foreign subsidiary corporation do not expire.

Income taxes paid amounted to $135.6 million (2006 — $187.0 million).

7. Retained earnings at beginning of period as restated

	January 1	
	2007	2006
Retained earnings at beginning of period as previously reported	**$1,804.4**	$1,721.9
Adjustments to retained earnings to recognize the prior years' effect of:		
(a) the fair value of the natural gas purchase contracts derivative asset (net of income taxes)	**41.6**	-
(b) the fair value of the power generation revenue contract liability associated with the natural gas purchase contracts derivative asset (net of income taxes)	**(31.6)**	-
(c) the change in method of accounting for long term debt and non-recourse long term debt at amortized cost using the effective interest method (net of income taxes)	**(0.6)**	-
(d) the fair value of receivables (net of income taxes)	**(0.5)**	-
Retained earnings at beginning of period as restated	**$1,813.3**	$1,721.9

8. Purchase of Class A shares and other direct charges to retained earnings

	2007	2006
Purchase of Class A shares	**$7.2**	$64.4
Purchase of ATCO Európa Szerkezetgyártó és Kereskedelmi Kft. (Note 19)	**-**	0.3
	$7.2	$64.7

9. Property, plant and equipment

	2007			2006	
	Composite Depreciation Rates	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Utilities	3.7%	**$ 7,036.4**	**$2,589.7**	$6,490.4	$2,411.1
Power Generation	3.3%	**2,839.9**	**1,093.9**	2,853.7	1,026.1
Global Enterprises	7.5%	**313.3**	**148.6**	269.5	140.8
Other	4.8%	**26.7**	**8.0**	26.7	6.7
		$10,216.3	**3,840.2**	$9,640.3	3,584.7
Property, plant and equipment less accumulated depreciation			**6,376.1**		6,055.6
Unamortized contributions by utility customers for extensions to plant			**697.6**		629.5
			$5,678.5		$5,426.1

Accumulated depreciation includes amounts provided for future removal and site restoration costs, net of salvage value, of $417.0 million (2006 — $374.6 million).

Composite depreciation rates reflect total depreciation in the year as a percentage of mid-year cost, excluding construction work-in-progress of $142.5 million (2006 — $114.2 million) and non-depreciable assets of $52.9 million (2006 — $52.3 million).

10. Other assets

	2007	2006
Accrued pension asset (Note 20)	**$139.5**	$157.1
Security deposits for debt	**19.6**	22.8
Deferred financing charges for debt [1]	**-**	25.0
Deferred financing charges for equity preferred shares [2]	**2.7**	-
Other	**32.5**	24.8
	$194.3	$229.7

(1) *Commencing January 1, 2007, in accordance with CICA recommendations regarding the presentation of financial liabilities, long term debt and non-recourse long term debt have been reduced by their respective cumulative unamortized balance of deferred financing charges. Amortization of deferred financing charges for debt, which was recorded in interest expense, amounted to $3.5 million (2006 – $2.8 million).*

(2) *Amortization of deferred financing charges for equity preferred shares, which was recorded in interest expense, amounted to $0.2 million (2006 – nil).*

11. Lines of credit

At December 31, 2007, the Corporation has the following lines of credit that enable it to obtain financing for general business purposes:

	2007			2006		
	Total	Used	Available	Total	Used	Available
Long term committed	**$ 326.0**	**$48.2**	**$277.8**	$326.0	$47.4	$278.6
Short term committed	**600.0**	**10.0**	**590.0**	600.0	14.0	586.0
Uncommitted	**74.1**	**12.9**	**61.2**	69.1	7.1	62.0
	$1,000.1	**$71.1**	**$929.0**	$995.1	$68.5	$926.6

11. Lines of credit (continued)

Of the $71.1 million used at December 31, 2007, $47.0 million is included in long term debt and $24.1 million represents outstanding letters of credit.

12. Long term debt and non-recourse long term debt

The CICA recommendations regarding the measurement of financial liabilities require the financial liabilities to be measured at initial recognition, including transaction costs, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, minus any reduction for impairment. Accordingly, deferred financing charges have been recalculated using the effective interest method. Commencing January 1, 2007, in accordance with CICA recommendations regarding the presentation of financial liabilities, long term debt and non-recourse long term debt have been reduced by their respective cumulative unamortized balance of deferred financing charges.

Long term debt

	Effective Interest Rate	**2007**	2006
Canadian Utilities			
CU Inc. debentures – unsecured			
2002 4.801% due November 2007	4.913%	**$ -**	$ 50.0
2000 6.97% due June 2008	7.062%	**100.0**	100.0
1989 Series 10.20% due November 2009	10.331%	**125.0**	125.0
1990 Series 11.40% due August 2010	11.537%	**125.0**	125.0
2000 7.05% due June 2011	7.130%	**100.0**	100.0
2007 4.883% due November 2012	4.990%	**35.0**	-
2004 5.096% due November 2014	5.162%	**100.0**	100.0
2002 6.145% due November 2017	6.217%	**150.0**	150.0
2004 5.432% due January 2019	5.492%	**180.0**	180.0
1999 6.8% due August 2019	6.861%	**300.0**	300.0
1990 Second Series 11.77% due November 2020	11.903%	**100.0**	100.0
2006 4.801% due November 2021	4.854%	**160.0**	160.0
1991 Series 9.92% due April 2022	10.063%	**125.0**	125.0
1992 Series 9.40% due May 2023	9.511%	**100.0**	100.0
2004 5.896% due November 2034	5.939%	**200.0**	200.0
2005 5.183% due November 2035	5.226%	**185.0**	185.0
2006 5.032% due November 2036	5.072%	**160.0**	160.0
2007 5.556% due October 2037	5.598%	**220.0**	-
CU Inc. other long term obligation, due June 2009, unsecured	6.000%	**4.5**	4.5
Canadian Utilities Limited debentures – unsecured			
2002 6.14% due November 2012	6.228%	**100.0**	100.0
Less: Deferred financing charges		**(13.3)**	-
		2,556.2	2,364.5
ATCO Midstream Ltd. credit facility, at BA rates, due June 2012, unsecured (1)	Floating	**25.0**	25.0
ATCO Power Canada Ltd. credit facility, at BA rates, due August 2012, secured by a pledge of cash (1)	Floating	**22.0**	22.0
		$2,603.2	$2,411.5

12. Long term debt and non-recourse long term debt (continued)

Non-recourse long term debt

The CICA recommendations pertaining to financial instruments do not permit the presentation of interest rate swaps in combination with floating rate long term debt to emulate fixed rate long term debt. Consequently, any of the Corporation's floating rate non-recourse long term debt that had previously been presented in combination with interest rate swaps is now presented exclusive of the effect of the interest rate swaps (see Note 21). The comparative figures have been restated; this change in presentation had no effect on the amount of the Corporation's non-recourse long term debt.

Project Financing	Effective Interest Rate	**2007**	2006
Barking Power Limited payable in British pounds:			
Term loans, at fixed rates averaging 7.95%, due to 2010:			
(£17.9 million (2006 – £22.8 million))	7.95%	**$ 35.1**	$ 52.1
Term loan, at LIBOR, due to 2008 (1):			
(£5.2 million (2006 – £37.5 million))	Floating	**10.2**	85.5
Osborne Cogeneration Pty Ltd., payable in Australian dollars:			
Term loan, at Bank Bill rates, due to 2013 (1):			
($31.9 million AUD (2006 – $36.4 million AUD))	Floating (2)	**27.7**	33.5
ATCO Power Alberta Limited Partnership ("APALP"):			
Term loan, at LIBOR, due to 2016 (1)	Floating (2)	**77.0**	90.0
Joffre:			
Term loan, at BA rates, due to 2012 (1)	Floating (2)	**0.4**	5.6
Term facility, at Canadian Prime Advances, due to 2012 (1)	Floating (2)	**0.1**	-
Term loan, at LIBOR, due to 2012 (1)	Floating (2)	**0.8**	10.0
Notes, at fixed rate of 8.59%, due to 2020	8.845%	**32.0**	32.0
Scotford:			
Term loan, at BA rates, due to 2014 (1)	Floating (2)	**42.5**	42.5
Term facility, at Canadian Prime Advances, due to 2014 (1)	Floating (2)	**10.7**	0.3
Term loan, at LIBOR, due to 2014 (1)	Floating (2)	**-**	10.7
Notes, at fixed rate of 7.93%, due to 2022	8.302%	**25.3**	26.1
Muskeg River:			
Term loan, at BA rates, due to 2014 (1)	Floating (2)	**32.5**	32.7
Term facility, at Canadian Prime Advances, due to 2014 (1)	Floating (2)	**0.1**	-
Term loan, at LIBOR, due to 2014 (1)	Floating (2)	**8.1**	8.2
Notes, at fixed rate of 7.56%, due to 2022	7.902%	**27.6**	29.4
Brighton Beach:			
Term loan, at BA rates, due to 2020 (1)	Floating (2)	**19.2**	20.2
Term loan, at LIBOR, due to 2020 (1)	Floating (2)	**17.3**	18.1
Construction overrun facility, at BA rates, due to 2020 (1)	Floating (2)	**4.7**	4.9
Construction overrun facility, at LIBOR, due to 2020 (1)	Floating (2)	**4.3**	4.5
Notes, at fixed rate of 6.924%, due to 2024	7.025%	**104.9**	107.8

12. Long term debt and non-recourse long term debt (continued)

Non-recourse long term debt (continued)

Project Financing	Effective Interest Rate	**2007**	2006
Cory:			
Cost overrun facility, at BA rates, due to 2011 (1)	Floating (2)	**2.4**	3.0
Notes, at fixed rate of 7.586%, due to 2025	7.872%	**35.5**	36.5
Notes, at fixed rate of 7.601%, due to 2026	7.880%	**31.5**	32.4
Less: Deferred financing charges		**(6.4)**	-
		543.5	686.0
Less: Amounts due within one year		**65.4**	59.3
		$478.1	$626.7

BA – Bankers' Acceptance
LIBOR – London Interbank Offered Rate

(1) *The above interest rates have additional margin fees at a weighted average rate of 1.2% (2006 — 1.1%). The margin fees are subject to escalation.*
(2) *Floating interest rates have been partially or completely hedged with interest rate swaps (see Note 21).*

The non-recourse long term debt is secured by charges on the projects' assets and by an assignment of the projects' bank accounts, outstanding contracts and agreements. The book value of the pledged assets and bank accounts at December 31, 2007 was $1,235.6 million (2006 — $1,415.2 million).

Guarantees

Canadian Utilities Limited has provided a number of guarantees related to ATCO Power's obligations under non-recourse loans associated with certain of its projects. These guarantees cover the following items:

a) **Construction liens** – Represents liens currently registered against project assets. Effective September 30, 2005, ATCO Power entered into an indemnity agreement with Brighton Beach Power Ltd. obligating it to cover any cash shortfalls associated with clearing the construction liens registered against the project. This agreement allowed the project to achieve financial completion under the terms of the project financing agreement. The maximum amount of the indemnity is $8.3 million. Canadian Utilities Limited issued a guarantee to Brighton Beach Power Ltd. guaranteeing the payments under the indemnity agreement. The indemnity and the guarantee are reduced as the liens are settled. At December 31, 2007, the value of the guarantee is $8.3 million.

b) **Project cash flows** — Represents annual payments related to maintaining base case margins for electricity prices on the merchant power component of the project, being 24 megawatts ("MW") for the Scotford project and 48 MW for the Muskeg River project. These guarantees became effective upon the commercial operation of the plants and exist until 2022, when the project debt is to be fully repaid. The amounts payable under these guarantees will vary each year depending on the pool price received for the merchant power generated. Any payments made to maintain the project base case margins will either be available for distribution to the owners or be applied to mandatory prepayment of the project debt in accordance with the terms of the project financing agreement depending upon the specific operating results of the plant. At December 31, 2007, no amounts were outstanding under the guarantee.

12. Long term debt and non-recourse long term debt (continued)

c) **Reserve amounts** — Represents amounts to be set aside for major maintenance and debt service reserves as stipulated in the project's financing agreement. These reserves are intended to be funded with project cash flows. To the extent that project cash flows are insufficient to meet reserve requirements, Canadian Utilities Limited may choose to provide guarantees in lieu of ATCO Power providing security. At December 31, 2007, the amount of the obligations under these guarantees is:

Project	Major Maintenance	Debt Service
APALP project financing	Nil (1)	$ 7.0
Brighton Beach project financing	Nil (2)	Nil
Cory project financing	Nil (1)	$ 3.9
Joffre project financing	Nil (3)	$ 1.6
Muskeg River project financing	Nil (1)	$ 9.0
Scotford project financing	Nil (1)	$12.1

(1) *No major maintenance reserve required for this financing.*
(2) *Reserve requirements of $0.2 million met with project cash flows.*
(3) *Reserve requirements of $0.1 million met with project cash flows.*

d) **Prepaid operating and maintenance fee** — Should ATCO Power cease to be operator of the APALP generating plants as a result of a termination of the operating agreement, Canadian Utilities Limited has guaranteed the payment of the unamortized portion of the prepaid operating and maintenance fee to APALP, the proceeds of which are to be used to repay project debt in accordance with the project financing agreements. This guarantee, which declines by $1.2 million per year, remains in effect until 2016, when the project debt is to be fully repaid. At December 31, 2007, the maximum value of the guarantee is $28.8 million.

e) **Purchase project assets** — Represents an obligation to purchase the Scotford and Muskeg River projects at a price sufficient to repay any outstanding project debt upon the occurrence of any one of the following very limited events:

(i) where all of the following events have occurred:
- the insolvency of ATCO Power;
- the failure of the project debt lenders to complete a sale of the project pursuant to their security within a fixed period of time; and
- the project purchaser of electricity and steam elects to terminate its purchase contracts due to the insolvency of ATCO Power;

(ii) where the project purchaser of electricity and steam does not remove ATCO Power as operator of the project after an event of default under the project financing agreements in circumstances where such default is either:
- a deliberate or willful breach of a project financing agreement; or
- where ATCO Power has failed to co-operate with the lenders in a sale of the project; and

(iii) where the project purchaser of electricity and steam terminates its purchase contracts for the project as a result of a default by ATCO Power's project minority joint venturers. ATCO Power has the right to cure any such default by acquiring the minority interest which is in default.

These guarantees remain in effect until the project debt is fully repaid. At December 31, 2007, no such events have occurred.

Canadian Utilities Limited has also guaranteed ATCO Power's duties to operate the Barking Power, Scotford and Muskeg River generating plants in accordance with acceptable industry operating standards under the relevant project contracts.

12. Long term debt and non-recourse long term debt (continued)

ATCO Power (80%) and ATCO Resources (20%), a wholly owned subsidiary of Canadian Utilities Limited's parent corporation, ATCO Ltd., have a joint venture in the above projects subject to guarantees, excluding Barking Power.

The foregoing guaranteed amounts represent ATCO Power's 80% interest. Canadian Utilities Limited has also guaranteed similar obligations in respect of ATCO Resources' 20% interest. ATCO Ltd. has indemnified and agreed to reimburse Canadian Utilities Limited for any amounts it may be required to pay under these guarantees in respect of ATCO Resources' 20% interest.

To date, Canadian Utilities Limited has not been required to pay any of its guaranteed obligations.

Minimum debt repayments

The minimum annual debt repayments for each of the next five years are as follows:

	Long Term Debt	Non-Recourse Long Term Debt	Total
2008	$100.0	$ 65.4	$165.4
2009	129.5	46.0	175.5
2010	125.0	50.3	175.3
2011	100.0	42.3	142.3
2012	82.0	38.8	120.8
	$536.5	$242.8	$779.3

Of the $165.4 million due in 2008, $100.0 million is to be refinanced and is, therefore, excluded from long term debt due within one year in the balance sheet.

Interest expense

Interest expense is as follows:

	2007	2006
Long term debt	**$169.1**	$161.0
Non-recourse long term debt	**43.2**	49.0
Notes payable	**-**	0.3
Bank indebtedness	**1.4**	1.5
Amortization of deferred financing charges	**3.7**	2.8
Interest on H.R. Milner income tax reassessment (Note 6)	**-**	8.3
	$217.4	$222.9

Interest paid amounted to $210.6 million (2006 — $220.8 million).

13. Deferred credits

	2007	2006
Accrued other post employment benefits liability (Note 20)	**$ 52.8**	$ 45.1
Deferred availability incentives	**41.8**	39.6
Asset retirement obligations	**73.1**	69.4
Power generation revenue contract liability (Note 21)	**54.2**	-
Liability to customers for refund of future income taxes (Note 3)	**25.8**	-
Deferred revenues (Note 4)	**26.2**	46.8
Accrued equipment repairs and maintenance	**8.6**	7.5
Other	**25.4**	20.6
	$307.9	$229.0

13. Deferred credits (continued)

Deferred availability incentives

Amortization of deferred availability incentives, which was recorded in revenues, amounted to $11.8 million (2006 – $10.6 million).

The amount to be amortized is dependent upon estimates of future generating unit availability and future electricity prices over the term of the PPA's. Each quarter, the Corporation uses these estimates to forecast the incentives to be received from, less penalties to be paid to, the PPA counterparties. These forecasts are added to the accumulated unamortized deferred availability incentives outstanding at the end of the quarter; the resulting total is divided by the remaining term of the PPA to arrive at the amortization for the quarter.

Asset retirement obligations

Changes in asset retirement obligations are summarized below:

	2007	2006
Obligations at beginning of year	**$69.4**	$62.2
Obligations incurred	**0.1**	3.7
Accretion expense	**3.6**	3.5
Obligations at end of year	**$73.1**	$69.4

The Corporation estimates the undiscounted amount of cash flow required to settle the asset retirement obligations is approximately $131 million, which will be incurred between 2008 and 2052. The discount rates used to calculate the fair value of the asset retirement obligations have a weighted average rate of 5.7%.

14. Equity preferred shares

CU Inc. equity preferred shares

Authorized and issued

Authorized: An unlimited number of Series Preferred Shares, issuable in series.

Issued:

	Stated Value (dollars)	Redemption Dates	**2007** Shares	**2007** Amount	2006 Shares	2006 Amount
Cumulative Redeemable Preferred Shares						
4.60% Series 1	$25.00	See below	**4,600,000**	**$115.0**	-	$ -

On April 18, 2007, CU Inc., a subsidiary corporation, issued $115.0 million Cumulative Redeemable Preferred Shares Series 1 at a price of $25.00 per share for cash. The dividend rate has been fixed at 4.60%. The net proceeds of the issue were used in part to redeem $91.8 million of the outstanding Cumulative Redeemable Second Preferred Shares Series Q, R and S of ATCO Electric, ATCO Gas and ATCO Pipelines, subsidiary corporations of CU Inc., that are held by Canadian Utilities Limited.

Fair values

Fair values for preferred shares determined using quoted market prices for the same or similar issues are $94.7 million (2006 - nil).

14. Equity preferred shares (continued)

Redemption privileges

The Series 1 preferred shares are redeemable at the option of the Corporation commencing on June 1, 2012, at the stated value plus a 4% premium per share for the next 12 months plus accrued and unpaid dividends. The redemption premium declines by 1% in each succeeding twelve month period until June 1, 2016.

Canadian Utilities Limited equity preferred shares

Authorized and issued

Authorized: An unlimited number of Series Second Preferred Shares, issuable in series.

Issued:

	Stated Value (dollars)	Redemption Dates	2007 Shares	2007 Amount	2006 Shares	2006 Amount
Cumulative Redeemable Second Preferred Shares						
5.9% Series Q	$25.00	Open	-	$ -	2,277,675	$ 56.9
5.3% Series R	$25.00	Open	-	-	2,146,730	53.7
6.6% Series S	$25.00	Open	-	-	635,700	15.9
5.8% Series W	$25.00	See below	**6,000,000**	**150.0**	6,000,000	150.0
6.0% Series X	$25.00	See below	**6,000,000**	**150.0**	6,000,000	150.0
Perpetual Cumulative Second Preferred Shares						
4.35% Series O	$25.00	December 2, 2011	**1,600,000**	**40.0**	1,600,000	40.0
4.35% Series T	$25.00	December 2, 2011	**1,600,000**	**40.0**	1,600,000	40.0
4.35% Series U	$25.00	December 2, 2011	**800,000**	**20.0**	800,000	20.0
4.70% Series V	$25.00	October 3, 2012	**4,400,000**	**110.0**	4,400,000	110.0
				$510.0		$636.5
Total CU Inc. and Canadian Utilities Limited equity preferred shares				**$625.0**		$636.5

On May 18, 2007, Canadian Utilities Limited redeemed $126.5 million of outstanding Cumulative Redeemable Second Preferred Shares Series Q, R, and S at a price of $25.00 per share plus accrued and unpaid dividends per share.

The dividends payable on the Series O, T, U, and V preferred shares are fixed until the redemption dates specified above, at which time a new dividend rate may be established by negotiations between Canadian Utilities Limited and the owners of the shares.

On October 3, 2007, the dividend rate on the Series V preferred shares was reset from 5.25% to 4.70%.

Fair values

Fair values for preferred shares determined using quoted market prices for the same or similar issues are $517.3 million (2006 — $666.8 million).

Redemption privileges

The preferred shares, except for Series W and X, are redeemable on the dates specified above at the option of Canadian Utilities Limited at the stated value plus accrued and unpaid dividends.

The Series W preferred shares are redeemable commencing on March 1, 2008 at the stated value plus a 4% premium for the next 12 months plus accrued and unpaid dividends. The redemption premium declines by 1% in each succeeding 12 month period until March 1, 2012.

14. Equity preferred shares (continued)

The Series X preferred shares are redeemable commencing June 1, 2008 at the stated value plus a 4% premium for the next 12 months plus accrued and unpaid dividends. The redemption premium declines by 1% in each succeeding 12 month period until June 1, 2012.

15. Class A and Class B shares

Authorized and issued

	Class A Non-Voting		Class B Common		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Authorized:	Unlimited		Unlimited			
Issued and outstanding:						
December 31, 2005	82,876,186	$379.7	44,016,284	$139.4	126,892,470	$519.1
Purchased and cancelled	(1,832,200)	(8.4)	-	-	(1,832,200)	(8.4)
Stock options exercised	327,900	5.3	-	-	327,900	5.3
Converted: Class B to Class A	84,800	0.3	(84,800)	(0.3)	-	-
December 31, 2006	**81,456,686**	**376.9**	**43,931,484**	**139.1**	**125,388,170**	**516.0**
Purchased and cancelled	**(157,800)**	**(0.7)**	**-**	**-**	**(157,800)**	**(0.7)**
Stock options exercised	**64,300**	**1.6**	**-**	**-**	**64,300**	**1.6**
Converted: Class B to Class A	**145,800**	**0.5**	**(145,800)**	**(0.5)**	**-**	**-**
December 31, 2007	**81,508,986**	**$378.3**	**43,785,684**	**$138.6**	**125,294,670**	**$516.9**

From January 1, 2008 to February 15, 2008, 46,400 Class B common shares were converted to Class A non-voting shares.

Earnings per share

Earnings per Class A non-voting and Class B common share is calculated by dividing the earnings attributable to Class A and Class B shares by the weighted average shares outstanding. Diluted earnings per share is calculated using the treasury stock method, which reflects the potential exercise of stock options on the weighted average Class A non-voting and Class B common shares outstanding. The average number of shares used to calculate earnings per share are as follows:

	Three Months Ended December 31		Year Ended December 31	
	2007	2006	**2007**	2006
	(Unaudited)			
Weighted average shares outstanding	**125,390,562**	125,321,693	**125,409,080**	126,218,722
Effect of dilutive stock options	**564,511**	512,786	**525,057**	468,457
Weighted average diluted shares outstanding	**125,955,073**	125,834,479	**125,934,137**	126,687,179

Share owner rights

The owners of the Class A non-voting shares and the Class B common shares are entitled to share equally, on a share for share basis, in all dividends declared by Canadian Utilities Limited on either of such classes of shares as well as the remaining property of Canadian Utilities Limited upon dissolution. The owners of the Class B common shares are entitled to vote and to exchange at any time each share held for one Class A non-voting share.

If a take-over bid is made for the Class B common shares which would result in the offeror owning more than 50% of the outstanding Class B common shares and which would constitute a change in control of Canadian Utilities

15. Class A and Class B shares (continued)

Limited, owners of Class A non-voting shares are entitled, for the duration of the bid, to exchange their Class A non-voting shares for Class B common shares and to tender such Class B common shares pursuant to the terms of the take-over bid. Such right of exchange is conditional upon the completion of the take-over bid giving rise to the right of exchange, and if the take-over bid is not completed, then the right of exchange shall be deemed never to have existed. In addition, owners of the Class A non-voting shares are entitled to exchange their shares for Class B common shares of Canadian Utilities Limited if ATCO Ltd., the present controlling share owner of Canadian Utilities Limited, ceases to own or control, directly or indirectly, more than 10,000,000 of the issued and outstanding Class B common shares of Canadian Utilities Limited. In either case, each Class A non-voting share is exchangeable for one Class B common share, subject to changes in the exchange ratio for certain events such as a stock split or rights offering.

Normal course issuer bid

On May 23, 2006, Canadian Utilities Limited commenced a normal course issuer bid for the purchase of up to 5% of the outstanding Class A shares. The bid expired on May 22, 2007. Over the life of the bid, 1,679,700 shares were purchased, all of which were purchased in 2006. On May 23, 2007, Canadian Utilities commenced a new normal course issuer bid for the purchase of up to 5% of the outstanding Class A shares. The bid will expire on May 22, 2008. From May 23, 2007, to February 15, 2008, 157,800 shares have been purchased, all of which were purchased in 2007.

Special dividend

The Corporation paid a Special Dividend of $0.25 per Class A non-voting and Class B common share on September 1, 2006.

16. Stock based compensation plans

Stock option plan

Of the 6,400,000 Class A non-voting shares authorized for grant in respect of options under Canadian Utilities Limited's stock option plan, 3,122,200 Class A non-voting shares are available for issuance at December 31, 2007. Options may be granted to directors, officers and key employees of Canadian Utilities Limited and its subsidiaries at an exercise price equal to the weighted average of the trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant.

Changes in shares under option are summarized below:

	2007		2006	
	Class A Shares	**Weighted Average Exercise Price**	Class A Shares	Weighted Average Exercise Price
Options at beginning of year	**1,208,000**	**$25.12**	1,415,500	$21.59
Granted	**163,500**	**47.82**	121,000	43.45
Exercised	**(64,300)**	**22.91**	(327,900)	16.62
Cancelled	**(3,000)**	**47.84**	(600)	24.52
Options at end of year	**1,304,200**	**$28.02**	1,208,000	$25.12

16. **Stock based compensation plans** (continued)

Information about stock options outstanding at December 31, 2007 is summarized below:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Class A Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Class A Shares	Weighted Average Exercise Price
\$17.23 - \$18.87	331,300	1.9	\$17.86	331,300	\$17.86
\$20.65 - \$28.65	487,400	2.3	23.54	473,000	23.47
\$30.25 - \$47.84	485,500	7.9	39.46	105,800	33.47
\$17.23 - \$47.84	1,304,200	4.3	\$28.02	910,100	\$22.59

In 2007, Canadian Utilities Limited granted 163,500 options to purchase Class A non-voting shares at a weighted average exercise price of \$47.82 per share. The options have a term of ten years and vest over the first five years.

Changes in contributed surplus are summarized below:

	2007	2006
Contributed surplus at beginning of year	**\$1.2**	\$ 0.7
Stock option expense	**0.7**	0.5
Contributed surplus at end of year	**\$1.9**	\$ 1.2

The Corporation uses the Black-Scholes option pricing model, which estimated the weighted average fair value of the options granted during 2007 at \$7.23 per option (2006 — \$6.24 per option) using the following weighted average assumptions:

	2007	2006
Risk free interest rate	**4.0%**	4.0%
Expected holding period prior to exercise	**6.2 years**	6.2 years
Share price volatility	**12.5%**	11.9%
Estimated annual Class A share dividend	**2.5%**	2.5%

Share appreciation rights

Directors, officers and key employees of the Corporation may be granted share appreciation rights that are based on Class A non-voting shares of Canadian Utilities Limited or Class I Non-Voting Shares of ATCO Ltd. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant. The base value of the share appreciation rights is equal to the weighted average of the trading price of the Class A non-voting shares and the Class I Non-Voting Shares, respectively, on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant. The holder is entitled on exercise to receive a cash payment equal to any increase in the market price of the Class A non-voting shares and Class I Non-Voting Shares, respectively, over the base value of the share appreciation rights exercised.

Share appreciation rights expense amounted to \$0.7 million (2006 — \$2.4 million).

17. Changes in non-cash working capital

	2007	2006
Operating activities, changes related to:		
Accounts receivable	**$(15.8)**	$(25.6)
Inventories	**(3.8)**	0.5
Regulatory assets	**5.1**	(10.6)
Prepaid expenses	**(5.2)**	(3.0)
Accounts payable and accrued liabilities	**21.5**	1.7
Income taxes	**(20.3)**	6.4
Future income taxes	**-**	(3.8)
Regulatory liabilities	**(0.5)**	(5.2)
	$(19.0)	$(39.6)
Investing activities, changes related to:		
Inventories	**$ (2.9)**	$ (8.1)
Prepaid expenses	**(1.1)**	(0.3)
Accounts payable and accrued liabilities	**16.3**	(6.2)
Income taxes	**-**	(3.7)
	$ 12.3	$(18.3)
Financing activities, changes related to:		
Accounts receivable	**$ -**	$ (0.1)

18. Joint ventures

The Corporation's interest in joint ventures is summarized below:

	2007	2006
Statement of earnings		
Revenues	**$ 484.9**	$ 533.0
Operating expenses	**291.0**	328.1
Depreciation and amortization	**42.1**	40.4
Interest	**36.1**	41.2
	115.7	123.3
Interest and other income	**13.3**	8.9
Earnings from joint ventures before income taxes	**$ 129.0**	$ 132.2
Balance sheet		
Current assets	**$ 165.7**	$ 266.9
Current liabilities	**(142.6)**	(174.0)
Property, plant and equipment	**871.7**	933.2
Deferred items – net	**(50.1)**	(93.1)
Non-recourse long term debt	**(350.4)**	(465.2)
Investment in joint ventures	**$ 494.3**	$ 467.8

18. **Joint ventures** (continued)

	2007	2006
Statement of cash flows		
Operating activities	**$ 143.6**	$ 180.8
Investing activities	**(17.7)**	(19.1)
Financing activities	**(208.0)**	(131.0)
Foreign currency translation	**(10.7)**	14.1
Increase (decrease) in cash position	**$ (92.8)**	$ 44.8

Current assets include cash of $65.2 million (2006 — $160.9 million) which is only available for use within the joint ventures.

19. Related party transactions

In transactions with ATCO Ltd. and its wholly owned subsidiary corporations, the Corporation sold fuel in the amount of $2.0 million (2006 — $2.2 million), provided computer operations and systems development services totaling $6.7 million (2006 – $2.4 million), recovered administrative expenses totaling $1.6 million (2006 — $2.4 million) and incurred administrative expenses and corporate signature rights totaling $8.3 million (2006 — $8.6 million). The Corporation also incurred capital expenditures of $9.4 million (2006 — nil) that were recorded in property, plant and equipment.

In transactions with entities related through common control, the Corporation provided security services and recovered administrative expenses totaling $0.3 million (2006 – $0.2 million) and incurred advertising, promotion and administrative expenses totaling $1.5 million (2006 — $1.7 million).

At December 31, 2007, accounts receivable due from related parties amounted to $0.8 million (2006 – $4.9 million) and accounts payable due to related parties amounted to $8.3 million (2006 – $3.2 million).

These transactions are in the normal course of business and under normal commercial terms.

On October 1, 2006, the Corporation purchased the common shares of ATCO Európa Szerkezetgyártó és Kereskedelmi Kft. from an affiliate corporation for $0.5 million cash, partially offset by the forgiveness of $0.4 million of debt owed by the Corporation to the affiliate corporation. This purchase was recorded at carrying value, resulting in a charge to retained earnings of $0.3 million.

20. Employee future benefits

The Corporation maintains registered defined benefit and defined contribution pension plans for most of its employees and provides other post employment benefits, principally health, dental and life insurance, for retirees and their dependants. The defined benefit pension plans provide for pensions based on employees' length of service and final average earnings. As of 1997, new employees automatically participate in the defined contribution pension plan and employees participating in the defined benefit pension plans may transfer to the defined contribution pension plan at any time. Upon transfer, further accumulation of benefits under the defined benefit pension plans ceases. The Corporation also maintains non-registered, non-funded defined benefit pension plans for certain officers and key employees.

20. Employee future benefits (continued)

Information about the Corporation's benefit plans, in aggregate, is as follows:

	2007		2006	
	Pension Benefit Plans	**Other Post Employment Benefit Plans**	Pension Benefit Plans	Other Post Employment Benefit Plans
Benefit plan assets, obligations and funded status				
Market value of plan assets:				
Beginning of year	**$1,704.1**	**$ -**	$1,561.1	$ -
Actual return on plan assets	**30.7**	**-**	187.3	-
Employee contributions	**3.8**	**-**	3.7	-
Employer contributions	**0.7**	**-**	-	-
Benefit payments	**(41.2)**	**-**	(39.8)	-
Payments to defined contribution plans (1)	**(9.5)**	**-**	(8.2)	-
End of year	**$1,688.6**	**$ -**	$1,704.1	$ -
Accrued benefit obligations:				
Beginning of year	**$1,642.0**	**$ 83.5**	$1,485.0	$ 80.3
Current service cost	**39.8**	**2.6**	38.0	3.0
Interest cost	**86.3**	**4.2**	80.8	4.2
Employee contributions	**3.8**	**-**	3.7	-
Benefit payments from plan assets (2)	**(41.2)**	**-**	(39.8)	-
Benefit payments by employer	**(4.3)**	**(2.0)**	(4.3)	(1.8)
Experience losses (gains) (3)	**(75.7)**	**(8.9)**	78.6	(2.2)
End of year (4)	**$1,650.7**	**$ 79.4**	$1,642.0	$ 83.5
Funded status:				
Excess (deficiency) of assets over obligations (4)	**$ 37.9**	**$(79.4)**	$ 62.1	$(83.5)
Amounts not yet recognized in financial statements:				
Unrecognized net cumulative experience losses on plan assets and accrued benefit obligations	**289.1**	**8.2**	316.0	17.7
Unrecognized net transitional liability (asset)	**(187.5)**	**18.4**	(221.0)	20.7
Accrued asset (liability) (Notes 10, 13)	**$ 139.5**	**$(52.8)**	$ 157.1	$(45.1)
Regulatory asset (liability) (5) (Note 2)	**$ (110.0)**	**$ 32.3**	$ (118.7)	$ 27.6

(1) *Employer contributions for certain of the Corporation's defined contribution pension plans are paid from the assets of the defined benefit pension plans.*

(2) *Pension plan benefit payments are indexed to increases in the Canadian Consumer Price Index to a maximum increase of 3% per annum.*

(3) *A change in the liability discount rate at December 31 assumption resulted in experience gains in 2007 of approximately $99 million, whereas a change in the average compensation rate increase assumption for the year resulted in experience losses in 2007 of approximately $29 million for the pension benefit plans. Changes in assumptions regarding the average compensation rate increase for the year and age at retirement resulted in experience losses in 2006 of approximately $66 million for the pension benefit plans.*

(4) *The non-registered, non-funded defined benefit pension plans had accrued benefit obligations of $84.0 million at December 31, 2007 (2006 – $84.2 million). Apart from these obligations, the excess of assets over obligations for the registered defined benefit pension plans at December 31, 2007 was $121.9 million (2006 – $146.3 million).*

(5) *The regulatory asset (liability) reflects an AUC decision to record costs of employee future benefits in the regulated operations, excluding Alberta Power (2000), when paid rather than accrued.*

	2007		2006	
	Pension Benefit Plans	**Other Post Employment Benefit Plans**	Pension Benefit Plans	Other Post Employment Benefit Plans
Benefit plan cost				
Components of benefit plan cost:				
Current service cost	**$ 39.8**	**$ 2.6**	$ 38.0	$ 3.0
Interest cost	**86.3**	**4.2**	80.8	4.2
Actual return on plan assets	**(30.7)**	**-**	(187.3)	-
Experience losses (gains) on accrued benefit obligations	**(75.7)**	**(8.9)**	78.6	(2.2)
	19.7	**(2.1)**	10.1	5.0
Adjustments to recognize long term nature of employee future benefits:				
Unrecognized portion of actual return on plan assets	**(64.4)**	**-**	107.6	-
Unrecognized portion of experience gains (losses) on accrued benefit obligations	**75.7**	**8.9**	(78.6)	2.2
Amortization of net cumulative experience losses on plan assets and accrued benefit obligations	**15.6**	**0.6**	24.5	2.0
Amortization of net transitional liability (asset)	**(33.5)**	**2.3**	(32.4)	2.3
	(6.6)	**11.8**	21.1	6.5
Defined benefit plans cost	**13.1**	**9.7**	31.2	11.5
Defined contribution plans cost	**11.0**	**-**	9.7	-
Total cost	**24.1**	**9.7**	40.9	11.5
Less: Capitalized	**2.1**	**2.5**	1.9	2.7
Less: Unrecognized defined benefit plans cost (income) (1) (2)	**7.8**	**2.9**	19.5	3.5
Net cost recognized (2)	**$ 14.2**	**$ 4.3**	$ 19.5	$ 5.3

(1) The unrecognized defined benefit plans cost (income) reflects an AUC decision to record costs of employee future benefits in the regulated operations, excluding Alberta Power (2000), when paid rather than accrued.

(2) Net cost recognized for pension benefit plans in 2007 includes the amortization of $2.6 million (2006 – $5.1 million) of the deferred pension assets recorded by the Corporation upon the adoption of the current accounting standard in 2000. On October 11, 2006, the AUC approved recovery of these assets for a nine-year period commencing January 1, 2005 (Note 2).

In the unaudited three months ended December 31, 2007, net cost of $3.0 million (2006 – $7.8 million) was recognized for pension benefit plans and net cost of $1.0 million (2006 – $1.6 million) was recognized for other post employment benefit plans.

20. Employee future benefits (continued)

Weighted average assumptions

	2007		2006	
	Pension Benefit Plans	**Other Post Employment Benefit Plans**	Pension Benefit Plans	Other Post Employment Benefit Plans
Assumptions regarding benefit plan cost:				
Expected long term rate of return on plan assets for the year	**6.6%**	**-**	6.1%	-
Liability discount rate for the year	**5.1%**	**5.1%**	5.1%	5.1%
Average compensation increase for the year	(1)	-	3.5%	-
Assumptions regarding accrued benefit obligations:				
Liability discount rate at December 31	**5.5%**	**5.5%**	5.1%	5.1%
Long term inflation rate	**2.5%**	(2)	2.5%	(2)

(1) *The assumed average compensation increases are 4.0% for five years (2007-2011) and 3.5% thereafter.*

(2) *The assumed annual health care cost trend rate increases used in measuring the accumulated post employment benefit obligation are as follows: for drug costs, 7.8% for 2007 grading down over 6 years to 4.5% (2006 – 8.5% for 2006 grading down over 7 years to 4.5%), and, for other medical and dental costs, 4.0% for 2007 and thereafter (2006 – 4.0% for 2006 and thereafter).*

The sensitivities of key assumptions used in measuring accrued benefit obligations and benefit plan cost for 2007 are outlined in the following table. The sensitivities of each key assumption have been calculated independently of changes in other key assumptions. Actual experience may result in changes in a number of assumptions simultaneously.

	2007 Pension Benefit Plans		2007 Other Post Employment Benefit Plans	
	Accrued Benefit Obligation	Benefit Plan Cost	Accrued Benefit Obligation	Benefit Plan Cost
Expected long term rate of return on plan assets				
1% increase (1)	-	$ (4.0)	-	-
1% decrease (1)	-	$ 4.0	-	-
Liability discount rate				
1% increase (1)	$ (82.3)	$(5.6)	$(3.7)	$(0.3)
1% decrease (1)	$104.9	$ 8.4	$ 4.6	$ 0.4
Future compensation rate				
1% increase (1)	$ 21.9	$ 3.0	-	-
1% decrease (1)	$(20.1)	$(2.8)	-	-
Long term inflation rate				
1% increase (1) (2) (3)	$ 36.5	$ 4.5	$ 3.9	$ 0.6
1% decrease (1) (3)	$(63.8)	$(7.7)	$(3.1)	$(0.4)

(1) *Sensitivities are net of the associated regulatory asset (liability) and unrecognized defined benefit plans cost, which reflect an AUC decision to record costs of employee future benefits in the regulated operations, excluding Alberta Power (2000), when paid rather than accrued.*

(2) *The long term inflation rate for pension plans reflects the fact that pension plan benefit payments are indexed to increases in the Canadian Consumer Price Index to a maximum increase of 3.0% per annum.*

(3) *The long term inflation rate for other post employment benefit plans is the assumed annual health care cost trend rate described in the weighted average assumptions.*

20. Employee future benefits (continued)

Pension benefit plan assets

	2007		2006	
	Amount	**%**	Amount	%
Plan asset mix:				
Equity securities [(1)]	**$1,000.4**	**59.3**	$1,028.7	60.4
Fixed income securities [(2)]	**621.7**	**36.8**	605.6	35.5
Real estate [(3)]	**37.2**	**2.2**	32.7	1.9
Cash and other assets [(4)]	**29.3**	**1.7**	37.1	2.2
	$1,688.6	**100.0**	$1,704.1	100.0

(1) Equity securities consist of investments in domestic and foreign preferred and common shares. At December 31, 2007, the market values of investments in United States' securities and international equities, denominated in a number of different currencies, are $114.9 million and $308.1 million, respectively (2006 – $236.7 million and $238.2 million, respectively).

(2) Fixed income securities consist of investments in federal and provincial government and corporate bonds and debentures.

(3) Real estate consists of investments in closed-end real estate funds.

(4) Cash and other assets consist of cash, short term notes and money market funds.

At December 31, 2007, plan assets include long term debt of CU Inc. having a market value of $12.2 million (2006 – $8.7 million), Class A non-voting and Class B common shares of Canadian Utilities Limited having a market value of $18.5 million (2006 – $19.1 million) and Class I Non-Voting Shares of ATCO Ltd. having a market value of $20.0 million (2006 – $18.2 million).

Funding

Employees are required to contribute a percentage of their salary to the registered defined benefit pension plans. The Corporation is required to provide the balance of the funding, based on triennial actuarial valuations, necessary to ensure that benefits will be fully provided for at retirement. Based on the most recent actuarial valuation for funding purposes as of December 31, 2006 the Corporation is continuing a contribution holiday that began on April 1, 1996 for all but one of the registered pension plans; commencing in 2007, the Corporation is required to make annual contributions of approximately $0.7 million to cover the unfunded liability of that plan. The next actuarial valuation for funding purposes is required as of December 31, 2009.

21. Risk management and financial instruments

The Corporation is exposed to changes in interest rates, commodity prices and foreign currency exchange rates. The Power Generation segment is affected by the cost of natural gas and the price of electricity in the Province of Alberta and the United Kingdom and the Global Enterprises segment is affected by the cost of natural gas and the price of natural gas liquids. In conducting its business, the Corporation may use various instruments, including forward contracts, swaps and options, to manage the risks arising from fluctuations in exchange rates, interest rates and commodity prices. All such instruments are used only to manage risk and not for trading purposes.

At December 31, 2007, the following derivative instruments were outstanding: interest rate swaps that hedge interest rate risk on the variable future cash flows associated with a portion of non-recourse long term debt, foreign currency forward contracts that hedge foreign currency risk on the future cash flows associated with specific firm commitments or anticipated transactions and certain natural gas purchase contracts.

21. Risk management and financial instruments (continued)

The derivative assets and liabilities comprise the following:

	2007
Derivative assets – current:	
Interest rate swap agreements	**$ 0.2**
Foreign currency forward contracts	**0.6**
	$ 0.8
Derivative assets – non-current:	
Natural gas purchase contracts	**$72.5**
Interest rate swap agreements	**0.8**
	$73.3
Derivative liabilities – current:	
Interest rate swap agreements	**$ 1.5**
Foreign currency forward contracts	**1.1**
	$ 2.6
Derivative liabilities – non-current:	
Interest rate swap agreements	**$ 3.3**

Interest rate risk

The Corporation has converted variable rate non-recourse long term debt to fixed rate debt through the following interest rate swap agreements:

Project Financing	Swap Fixed Interest Rate [(1)]	Variable Debt Interest Rate	Maturity Date	Notional Principal 2007	Notional Principal 2006
Osborne: ($30.3 million AUD (2006 – $34.6 million AUD))	7.333%	Bank Bill Rate in Australia	December 2013	**$ 26.3**	$ 31.8
APALP:	7.790%	90 day BA	November 2008	**1.3**	2.6
	7.567%	90 day BA	December 2008	**1.8**	3.6
	7.750%	6 month LIBOR	December 2011	**73.7**	83.8
Joffre:	7.286%	90 day BA	September 2012	**19.8**	24.0
Scotford:	5.332%	90 day BA	September 2008	**51.4**	54.2
Muskeg River:	5.287%	90 day BA	December 2007	**-**	40.8
	5.515%	90 day BA	December 2012	**32.6**	-
	5.615%	3 month LIBOR	December 2012	**8.2**	-
Brighton Beach:	5.837%	30 day BA	June 2009	**8.5**	8.9
	6.575%	90 day BA	March 2019	**34.2**	36.1
Cory:	6.586%	90 day BA	June 2011	**2.1**	2.7
				$259.9	$288.5

BA – Bankers' Acceptance
LIBOR – London Interbank Offered Rate

(1) *The above swap fixed interest rates include any long term debt margin fees; the margin fees are subject to escalation (Note 12).*

The Corporation has fixed interest rates, either directly or through interest rate swap agreements, on 98% (2006 – 96%) of total long term debt and non-recourse long term debt.

21. **Risk management and financial instruments** (continued)

Foreign exchange rate risk

The Corporation has exposure to changes in the carrying values of its foreign operations, including assets and liabilities, as a result of changes in exchange rates. Gains or losses on translation of self-sustaining foreign operations are included in the foreign currency translation adjustment account in accumulated other comprehensive income. Gains or losses on translation of integrated foreign operations are recognized in earnings.

The Corporation has entered into foreign currency forward contracts in order to fix the exchange rate on certain service contracts, planned equipment expenditures and operational cash flows denominated in U.K. pounds sterling ("£"), U.S. dollars and Euros. At December 31, 2007, the contracts consist of purchases of £0.7 million, $3.1 million U.S. and 7.0 million Euros, and sales of 33.0 million Euros (2006 – purchases of $0.2 million U.S. and sales of 3.0 million Euros).

Natural gas purchase contracts and associated power generation revenue contract liability

The Corporation has long term contracts for the supply of natural gas for certain of its power generation projects. Under the terms of certain of these contracts, the volume of natural gas that the Corporation is entitled to take is in excess of the natural gas required to generate power. As the excess volume of natural gas can be sold, the Corporation is required to designate these entire contracts as derivative instruments. The Corporation recognized a non-current derivative asset of $59.0 million on January 1, 2007; thereafter, the Corporation will record mark-to-market adjustments through earnings as the fair values of these contracts change with changes in future natural gas prices. These natural gas purchase contracts mature in November 2014.

As all but the excess volume of natural gas is committed to the Corporation's power generation obligations, the Corporation could not recognize the entire fair values of these natural gas purchase contracts in its revenues. Consequently, on January 1, 2007, the Corporation recognized a provision for a power generation revenue contract in the amount of $44.8 million; thereafter, the Corporation will record adjustments to the power generation revenue contract liability concurrently with the mark-to-market adjustments for the natural gas purchase contracts derivative asset. This power generation revenue contract liability is included in deferred credits in the consolidated balance sheet.

The mark-to-market adjustment increased the derivative asset by $14.1 million and $13.5 million, respectively, for the unaudited_three months and year ended December 31, 2007; the associated power generation revenue contract liability increased by $10.2 million and $9.4 million, respectively, for the unaudited_three months and year ended December 31, 2007. At December 31, 2007, the natural gas purchase contracts derivative asset is $72.5 million and the power generation revenue contract liability is $54.2 million. The mark-to-market adjustment for the derivative asset and the corresponding adjustment for the associated power generation revenue contract liability increased earnings by $2.8 million, net of income taxes, for the unaudited three months ended December 31, 2007 and increased earnings by $2.9 million, net of income taxes, for the year ended December 31, 2007.

Credit risk

For cash and short term investments and accounts receivable, credit risk represents the carrying amount on the consolidated balance sheet. Accounts receivable credit risk is reduced by a large and diversified customer base, requirement of letters of credit, and, for regulated operations other than Alberta Power (2000), the ability to recover an estimate for doubtful accounts through approved customer rates.

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. Derivative credit risk is minimized by dealing with large, credit-worthy counterparties in accordance with established credit approval policies.

21. Risk management and financial instruments (continued)

Fair value of non-derivative financial instruments

The carrying values and fair values of the Corporation's non-derivative financial instruments are as follows:

	2007		2006	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Assets				
Cash and short term investments [1]	**$ 747.2**	**$ 747.2**	$ 798.8	$ 798.8
Accounts receivable [1]	**373.9**	**373.9**	362.3	362.3
Liabilities				
Accounts payable and accrued liabilities [2]	**375.0**	**375.0**	338.8	338.8
Liability to customers for refund of future income taxes (Note 13) [3]	**25.8**	**25.8**	-	-
Long term debt [3]	**2,603.2**	**2,907.5**	2,411.5	2,788.4
Non-recourse long term debt [3]	**543.5**	**578.0**	686.0	718.1

(1) Recorded at cost. Fair value approximates the carrying amounts due to the short term nature of the financial instruments and negligible credit losses.

(2) Recorded at cost. Fair value approximates the carrying amounts due to the short term nature of the financial instruments.

(3) Recorded at amortized cost. Fair values are determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Corporation's current borrowing rate for similar borrowing arrangements.

Fair value of derivative financial instruments

The fair values of the Corporation's derivative financial instruments are as follows:

	2007			2006		
	Notional Principal [1]	**Fair Value Receivable (Payable) [3]**	**Maturity**	Notional Principal [1]	Fair Value Receivable (Payable) [3]	Maturity
Interest rate swaps	**$259.9**	**$(3.8)**	**2008-2019**	$288.5	$(7.3)	2007-2019
Foreign currency Forward contracts	**$ 62.6**	**$(0.5)**	**2008**	$ 4.6	$ 0.3	2007
Natural gas purchase contracts	**N/A [2]**	**$72.5**	**2014**	N/A [4]	N/A [4]	N/A [4]

(1) The notional principal is not recorded in the consolidated financial statements as it does not represent amounts that are exchanged by the counterparties.

(2) The notional amount for the natural gas purchase contracts is the maximum volumes that can be purchased over the terms of the contracts.

(3) Fair values for the interest rate swaps and the foreign currency forward contracts have been estimated using period-end market rates, and fair values for the natural gas purchase contracts have been estimated using period-end forward market prices for natural gas. These fair values approximate the amount that the Corporation would either pay or receive to settle the contract at December 31.

(4) In accordance with the CICA recommendations for financial instruments, disclosures not required in financial statements for periods prior to January 1, 2007 need not be provided on a comparative basis.

22. Other comprehensive income

Other comprehensive income ("OCI") of the Corporation is comprised of three components: the unrealized gains and losses on effective cash flow hedging instruments, the unrealized gains and losses on financial assets that are available for sale, and the foreign currency translation adjustment relating to self-sustaining foreign operations.

Changes in the components of accumulated OCI are summarized below:

	Three Months Ended December 31		Year Ended December 31	
	2007	2006	**2007**	2006
Accumulated OCI at beginning of period:				
Cash flow hedge losses (1)	**$ (5.1)**	$ -	**$ -**	$ -
Financial assets available for sale (2)	**0.1**	-	**-**	-
Foreign currency translation adjustment	**(21.3)**	(15.0)	**3.1**	(18.2)
	(26.3)	(15.0)	**3.1**	(18.2)
Adjustment to accumulated OCI at beginning of period due to change in method of accounting for:				
Cash flow hedge losses (3)	**-**	-	**(7.4)**	-
Financial assets available for sale (2)	**-**	-	**0.1**	-
	-	-	**(7.3)**	-
OCI for the period:				
Changes in fair values of cash flow hedges (4)	**0.5**	-	**2.7**	-
Transfers of cash flow hedge losses to earnings (2)	**-**	-	**0.1**	-
Transfer of gain on financial assets available for sale to earnings (2)	**(0.1)**	-	**(0.1)**	-
	0.4	-	**2.7**	-
Foreign currency translation adjustment	**(7.2)**	18.1	**(31.6)**	21.3
	(6.8)	18.1	**(28.9)**	21.3
Accumulated OCI at end of period:				
Cash flow hedge losses (5)	**(4.6)**	-	**(4.6)**	-
Financial assets available for sale	**-**	-	**-**	-
Foreign currency translation adjustment	**(28.5)**	3.1	**(28.5)**	3.1
	$(33.1)	$ 3.1	**$(33.1)**	$ 3.1

(1) *Net of income taxes of $2.2 million.*
(2) *Net of income taxes of nil.*
(3) *Net of income taxes of $3.2 million.*
(4) *Net of income taxes of $(0.3) million and $(1.3) million, respectively.*
(5) *Net of income taxes of $1.9 million and $1.9 million, respectively.*

23. Commitments and contingencies

Commitments

The Corporation has contractual obligations in the normal course of business; future minimum payments are as follows:

	2008	2009	2010	2011	2012	Total of All Subsequent Years
Operating leases (1)	$ 16.3	$ 10.4	$ 9.7	$ 7.2	$ 4.5	$ 13.6
Purchase obligations:						
Coal purchase contracts (2)	49.3	50.4	51.3	52.9	54.4	296.3
Natural gas purchase contracts (3)	50.3	50.4	48.8	20.1	11.1	6.3
Operating and maintenance agreements (4)	19.4	16.6	17.8	17.9	13.9	68.9
Other	3.9	2.0	0.3	0.3	0.3	0.2
	$139.2	$129.8	$127.9	$98.4	$84.2	$385.3

(1) *Operating leases are comprised primarily of long term leases for office premises and equipment.*

(2) *Alberta Power (2000) has fixed price long term contracts to purchase coal for its coal-fired generating plants.*

(3) *Natural gas purchase contracts consist primarily of ATCO Power contracts to purchase natural gas for certain of its natural gas-fired generating plants.*

(4) *ATCO Power and Alberta Power (2000) have long term service agreements with suppliers to provide operating and maintenance services at certain of their generating plants.*

Contingencies

Measurement inaccuracies occur from time to time with respect to ATCO Electric's, ATCO Gas' and ATCO Pipelines' metering facilities. Measurement adjustments are settled between the parties based on the requirements of the Electricity and Gas Inspections Act (Canada) and applicable regulations issued pursuant thereto. There is a risk of disallowance of the recovery of a measurement adjustment if controls and timely follow-up are found to be inadequate by the AUC.

The Corporation is party to a number of other disputes and lawsuits in the normal course of business. The Corporation believes that the ultimate liability arising from these matters will have no material impact on the consolidated financial statements.

As a result of decisions of the Supreme Court of Canada in Garland vs. Consumers' Gas Co., the imposition of late payment penalties on utility bills has been called into question. The Corporation is unable to determine at this time the impact, if any, that these decisions will have on the Corporation.

In 2004, ATCO Gas and ATCO Electric transferred their retail energy supply businesses to Direct Energy Marketing Limited and one of its affiliates (collectively "DEML"), a subsidiary of Centrica plc. ATCO Gas and ATCO Electric continue to own and operate the natural gas and electricity distribution systems used to deliver energy.

Although ATCO Gas and ATCO Electric transferred to DEML certain retail functions, including the supply of natural gas and electricity to customers and billing and customer care functions, the legal obligations of ATCO Gas and ATCO Electric remain if DEML fails to perform. In certain events (including where DEML fails to supply natural gas and/or electricity and ATCO Gas and/or ATCO Electric are ordered by the AUC to do so), the functions will revert to ATCO Gas and/or ATCO Electric with no refund of the transfer proceeds to DEML by ATCO Gas and/or ATCO Electric.

23. **Commitments and contingencies** (continued)

Centrica plc, DEML's parent, has provided a $300 million guarantee, supported by a $235 million letter of credit in respect of DEML's obligations to ATCO Gas, ATCO Electric and ATCO I-Tek in respect of the ongoing relationships contemplated under the transaction agreements. However, there can be no assurance that the coverage under these agreements will be adequate to cover all of the costs that could arise in the event of a reversion of such functions.

Canadian Utilities Limited has provided a guarantee of ATCO Gas', ATCO Electric's and ATCO I-Tek's payment and indemnity obligations to DEML contemplated under the transaction agreements.

24. Segmented information

Description of segments

The Corporation operates in the following business segments:

The **Utilities** Business Group includes the regulated distribution of natural gas by ATCO Gas, the regulated transmission and distribution of water by CU Water, the regulated transmission of natural gas by ATCO Pipelines, the regulated distribution and transmission of electric energy by ATCO Electric and its subsidiaries, Northland Utilities (NWT), Northland Utilities (Yellowknife) and Yukon Electrical, and the provision of non-regulated complementary projects by ATCO Energy Solutions (formerly ATCO Utility Services).

The **Power Generation** Business Group includes the non-regulated supply of electricity and cogeneration steam by ATCO Power, the regulated supply of electricity by Alberta Power (2000), and the sale of fly ash and other combustion byproducts produced in coal fired electrical generating plants by ASHCOR Technologies.

The **Global Enterprises** Business Group includes the non-regulated gathering, processing, storage, purchase and sale of natural gas by ATCO Midstream, the provision of project management and technical services for customers in the industrial, defence and transportation sectors by ATCO Frontec, the development, operation and support of information systems and technologies and the provision of billing services, payment processing, credit, collection and call centre services by ATCO I-Tek and the sale of travel services to both business and consumer sectors by ATCO Travel. The Corporation sold its 50% interest in Genics, a manufacturer of wood preservation products, effective August 1, 2006.

The Corporate and Other segment includes commercial real estate owned by the Corporation in Alberta.

Segmented results – Three months ended December 31

2007 2006	Utilities	Power Generation	Global Enterprises	Corporate and Other	Intersegment Eliminations	Consolidated
(Unaudited)						
Revenues – external	**$306.8** $308.4	**$193.9** $226.7	**$155.8** $135.6	**$ 0.6** $ 0.4	**$ -** $ -	**$657.1** $671.1
Revenues – intersegment [(1)]	**6.5** 6.3	**-** -	**42.4** 38.3	**2.9** 2.9	**(51.8)** (47.5)	**-** -
Revenues	**$313.3** $314.7	**$193.9** $226.7	**$198.2** $173.9	**$ 3.5** $ 3.3	**$(51.8)** $(47.5)	**$657.1** $671.1
Earnings attributable to Class A and Class B shares	**$ 48.0** $ 43.7	**$ 25.5** $ 36.9	**$ 27.7** $ 27.3	**$(4.1)** $(6.5)	**$ 1.6** $ (1.4)	**$ 98.7** $100.0

(1) *Intersegment revenues are recognized on the basis of prevailing market or regulated prices.*

24. **Segmented information** (continued)

Segmented results – Year ended December 31

2007 2006	Utilities	Power Generation	Global Enterprises	Corporate and Other	Intersegment Eliminations	Consolidated
Revenues – external	**$1,091.4** $1,086.2	**$ 773.0** $ 799.5	**$538.6** $543.3	**$ 1.9** $ 1.4	**$ -** $ -	**$2,404.9** $2,430.4
Revenues – intersegment [1]	**25.1** 24.6	**-** -	**134.0** 123.9	**11.7** 11.3	**(170.8)** (159.8)	**-** -
Revenues	**1,116.5** 1,110.8	**773.0** 799.5	**672.6** 667.2	**13.6** 12.7	**(170.8)** (159.8)	**2,404.9** 2,430.4
Operating expenses	**640.6** 601.4	**422.6** 431.3	**486.1** 490.5	**18.6** 18.7	**(166.3)** (151.2)	**1,401.6** 1,390.7
Depreciation and amortization	**223.7** 220.2	**97.2** 95.4	**29.1** 31.5	**1.5** 1.4	**-** -	**351.5** 348.5
Interest expense	**140.6** 132.5	**79.0** 92.2	**2.9** 2.2	**171.9** 162.4	**(177.0)** (166.4)	**217.4** 222.9
Interest and other income	**(16.6)** (20.3)	**(20.6)** (11.9)	**(2.7)** (4.1)	**(201.4)** (188.6)	**177.0** 166.4	**(64.3)** (58.5)
Earnings before income taxes	**128.2** 177.0	**194.8** 192.5	**157.2** 147.1	**23.0** 18.8	**(4.5)** (8.6)	**498.7** 526.8
Income taxes	**(22.2)** 45.4	**57.6** 69.7	**47.2** 46.1	**(1.2)** 8.7	**(3.7)** (2.8)	**77.7** 167.1
	150.4 131.6	**137.2** 122.8	**110.0** 101.0	**24.2** 10.1	**(0.8)** (5.8)	**421.0** 359.7
Dividends on equity preferred shares	**10.7** 10.4	**2.5** 3.6	**-** -	**21.1** 21.8	**-** -	**34.3** 35.8
Earnings attributable to Class A and Class B shares	**$ 139.7** $ 121.2	**$ 134.7** $ 119.2	**$110.0** $101.0	**$ 3.1** $ (11.7)	**$ (0.8)** $ (5.8)	**$ 386.7** $ 323.9
Total assets	**$4,103.0** $3,799.0	**$2,187.4** $2,240.0	**$345.2** $278.1	**$562.5** $576.2	**$ 87.3** $100.2	**$7,285.4** $6,993.5
Purchase of property, plant and equipment	**$ 588.9** $ 505.0	**$ 49.2** $ 48.1	**$ 62.7** $ 14.2	**$ -** $ 0.4	**$ -** $ -	**$ 700.8** $ 567.7

[1] *Intersegment revenues are recognized on the basis of prevailing market or regulated prices.*

Geographic segments

	Domestic		Foreign		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
Revenues	**$2,143.8**	$2,130.6	**$261.1**	$299.8	**$2,404.9**	$2,430.4
Property, plant and equipment	**$5,369.5**	$5,099.5	**$309.0**	$326.6	**$5,678.5**	$5,426.1

Canadian Utilities Limited

Management's Discussion and Analysis (MD&A)
For the year ended December 31, 2007

This MD&A should be read in conjunction with the Company's unaudited consolidated financial statements for the three months ended December 31, 2007 and the audited consolidated financial statements for the year ended December 31, 2007. This MD&A is dated February 19, 2008. Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

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Glossary

Adjusted Earnings means earnings attributable to Class A and Class B shares after adjustment for items that are not in the normal course of business nor a result of day-to-day operations. These items are usually of a non-recurring or one-time nature. Refer to Reconciliation of Earnings Attributable to Class A and Class B shares and Adjusted Earnings section for a description of these items (non GAAP items).

Adjusted Earnings per Share is calculated by dividing Adjusted Earnings for a period by the weighted average number of Class A and Class B shares outstanding during the period (non GAAP items).

AESO means the Alberta Electric System Operator.

Alberta Power Pool means the market for electricity in Alberta operated by AESO.

AUC means the Alberta Utilities Commission and its predecessor, the Alberta Energy and Utilities Board.

Availability means a measure of time, expressed as a percentage of continuous operation, that a generating unit is capable of producing electricity, regardless of whether the unit is actually generating electricity.

Class A shares means Class A non-voting shares of the Company.

Class B shares means Class B common shares of the Company.

Class I Shares means Class I Non-Voting Shares of ATCO Ltd.

Class II Shares means Class II Voting Shares of ATCO Ltd.

Company means Canadian Utilities Limited and, unless the context otherwise requires, includes its subsidiaries.

Frac spread means the premium or discount between the purchase price of natural gas and the selling price of extracted natural gas liquids on a heat content equivalent basis.

GAAP means Canadian generally accepted accounting principles.

GHG means any greenhouse gas which has the potential to retain heat in the atmosphere, including water vapour, carbon dioxide, methane, nitrous oxide and hydrofluorocarbons.

Gigajoule (GJ) means a unit of energy equal to approximately 948.2 thousand British thermal units.

Mark-to-market means assigning a value to a contract or financial instrument based on the current market prices for that instrument or similar instruments.

Megawatt (MW) means a measure of electric power equal to 1,000,000 watts.

Megawatt hour (MWh) means a measure of electricity consumption equal to the use of 1,000,000 watts of power over a one-hour period.

NGL means natural gas liquids, such as ethane, propane, butane and pentanes plus, that are extracted from natural gas and sold as distinct products or as a mix.

Petajoule (PJ) means a unit of energy equal to approximately 948.2 billion British thermal units.

PPA means Power Purchase Arrangements that became effective on January 1, 2001, as part of the process of restructuring the electric utility business in Alberta. The PPAs are legislatively mandated and approved by the AUC.

Propane Plus means propane, butane, pentane and other hydrocarbons other than methane and ethane.

Shrinkage Gas means the natural gas which is used to replace, on a heat equivalent basis, the NGL extracted during NGL extraction operations.

Spark spread means the difference between the selling price of electricity and the marginal cost of producing electricity from natural gas. In this MD&A, spark spreads are based on an approximate industry heat rate of 7.5 GJ per MWh.

U.K. means United Kingdom.

Company Overview

Canadian Utilities Limited, an Alberta based worldwide organization of companies with assets of approximately $7.3 billion, and more than 6,500 employees, is comprised of three main business divisions: Utilities (natural gas and electric transmission and distribution); Power Generation; and Global Enterprises (technology, logistics and energy services).

The consolidated financial statements include the accounts of Canadian Utilities Limited and all of its subsidiaries. The consolidated financial statements have been prepared in accordance with GAAP and the reporting currency is the Canadian dollar.

The Company operates in the following business segments:

The **Utilities** Business Group includes:

- the regulated distribution of natural gas by ATCO Gas;
- the regulated transmission and distribution of water by CU Water;
- the regulated transmission of natural gas by ATCO Pipelines;
- the regulated distribution and transmission of electric energy by ATCO Electric and its subsidiaries, Northland Utilities (NWT), Northland Utilities (Yellowknife) and Yukon Electrical; and
- the provision of non-regulated complementary projects by ATCO Energy Solutions (formerly ATCO Utility Services).

The **Power Generation** Business Group includes:

- the non-regulated supply of electricity and cogeneration steam by ATCO Power;
- the regulated supply of electricity by Alberta Power (2000); and
- the sale of fly ash and other combustion byproducts produced in coal-fired electrical generating plants by ASHCOR Technologies.

The **Global Enterprises** Business Group includes:

- the non-regulated gathering, processing, storage, purchase and sale of natural gas by ATCO Midstream;
- the provision of project management and technical services for customers in the industrial, defence and transportation sectors by ATCO Frontec;
- the development, operation and support of information systems and technologies, and the provision of billing services, payment processing, credit, collection and call centre services by ATCO I-Tek; and
- the sale of travel services to both business and consumer sectors by ATCO Travel.

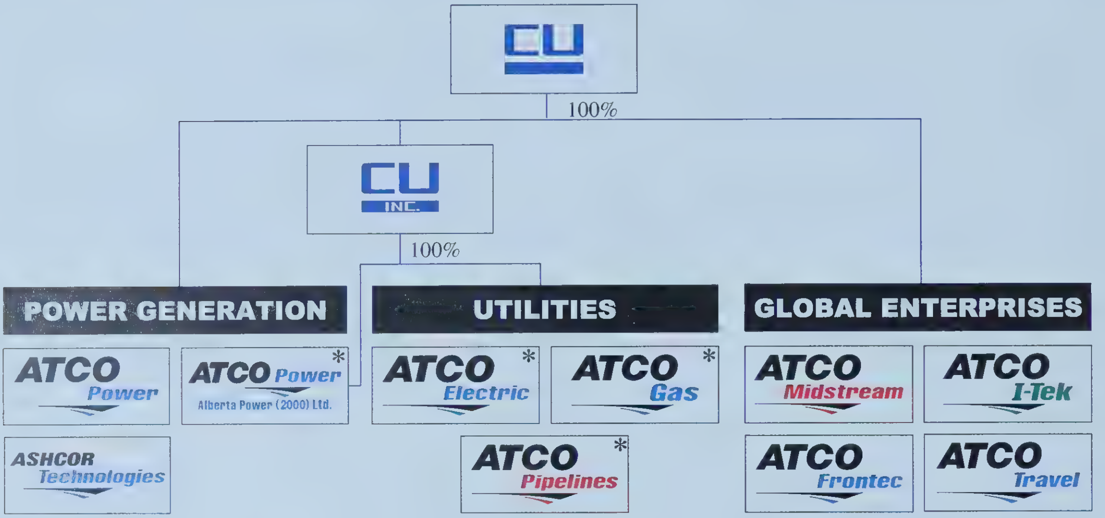
The Corporate and Other segment includes commercial real estate owned by the Company in Alberta.

Transactions between business segments are eliminated in all reporting of the Company's consolidated financial information. For additional information on the Company's business segments, refer to Note 24 of the consolidated financial statements.

Canadian Utilities focuses on operational excellence through transparency, defined accountability, clear communication of corporate goals, pre-emptive decision making, and proactive management. Since repatriation from the United States, some 28 years ago, Canadian Utilities has consistently represented solid performance, quality products and services, and customer satisfaction, while maintaining a commitment to safety, the environment and the communities it serves.

Canadian Utilities' diversity of operations offer stable utility earnings while providing the opportunity to develop profitable products and services in non-regulated businesses.

Simplified Organizational Structure



* Regulated operations include ATCO Electric, ATCO Gas, ATCO Pipelines and the Battle River and Sheerness generating plants of Alberta Power (2000) Ltd.

Forward-Looking Information

Certain statements contained in this MD&A constitute forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "will", "intend", "should", and similar expressions. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes that the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon.

In particular, this MD&A contains forward-looking information pertaining to contractual obligations, planned capital expenditures, the impact of changes in government regulation, non-regulated generating capacity subject to long term contracts and the impact of commodity prices. Actual results could differ materially from those anticipated in this forward-looking information as a result of regulatory decisions, competitive factors in the industries in which the Company operates, prevailing economic conditions, and other factors, many of which are beyond the control of the Company.

Non-GAAP Measures

The Company uses the measures "funds generated by operations", "Adjusted Earnings" and "Adjusted Earnings per Class A and Class B Share" in this MD&A. These measures do not have any standardized meaning under GAAP and might not be comparable to similar measures presented by other companies.

Funds generated by operations is defined as cash flows from operations before changes in non-cash working capital. In management's opinion, funds generated by operations is a significant performance indicator of the Company's ability to generate cash during a period to fund its capital expenditures without regard to changes in non-cash working capital during the period.

Adjusted Earnings is defined as earnings attributable to Class A and Class B shares after adjustment for items that are not in the normal course of business nor a result of day-to-day operations. These items are usually of a non-recurring or one-time nature. Management believes Adjusted Earnings allow for a more effective analysis of operating performance and trends. A reconciliation of Adjusted Earnings to earnings attributable to Class A and Class B shares is presented in the Results of Operations – Reconciliation of Earnings Attributable to Class A and Class B shares and Adjusted Earnings section.

Controls and Procedures

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2007, the Company's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO).

Disclosure controls are procedures designed to ensure that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Company's management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, inclusive of the CEO and the CFO, does not expect that Canadian Utilities' disclosure controls and procedures will prevent or detect all error and all fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within Canadian Utilities have been detected.

Based on this evaluation, the CEO and the CFO have concluded that, subject to the inherent limitations noted above, Canadian Utilities' disclosure controls are effective in providing reasonable assurance that material information relating to the Company and its consolidated subsidiaries is made known to the CEO and the CFO by others within those entities.

INTERNAL CONTROL OVER FINANCIAL REPORTING

As of December 31, 2007, management of the Company is responsible for evaluating the design of internal control over financial reporting, as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the CEO and the CFO. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

There were no changes in the Company's internal controls over financial reporting that have occurred during the three months ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Annual Results of Operations

SELECTED INFORMATION

($ millions, except per share data, outstanding shares and % return on equity) [1] [2]	For the Year Ended December 31		
	2007	2006	Change to 2007 (2007-2006)
Revenues	2,404.9	2,430.4	(1.0)%
Earnings attributable to Class A and Class B shares	386.7	323.9	19.4%
Adjusted Earnings [3]	343.8	320.8	7.2%
Total assets	7,285.4	6,993.5	4.2%
Long term debt	2,603.2	2,411.5	7.9%
Non-recourse long term debt	478.1	626.7	(23.7)%
Equity preferred shares	625.0	636.5	(1.8)%
Class A and Class B share owners' equity	2,521.7	2,324.7	8.5%
Return on equity	16.0	14.3	11.9%
Cash flow from operations	706.9	617.9	14.4%
Funds generated by operations	725.9	657.5	10.4%
Capital expenditures	700.8	567.7	23.4%
Earnings per Class A and Class B share	3.08	2.57	19.8%
Diluted earnings per Class A and Class B share	3.07	2.56	19.9%
Adjusted Earnings per Class A and Class B share [3]	2.74	2.54	7.9%
Cash dividends declared per share:			
Series Second Preferred Shares:			
Series O [4]	1.13	1.26	(10.3)%
Series Q [5]	0.68	1.48	
Series R [5]	0.61	1.33	
Series S [5]	0.77	1.65	
Series T [4]	1.09	1.26	(13.5)%
Series U [4]	1.09	1.26	(13.5)%
Series V [6]	1.28	1.31	(2.3)%
Series W	1.45	1.45	0.0%
Series X	1.50	1.50	0.0%
Class A and Class B share	1.25	1.40	(10.7)%
Equity per Class A and Class B share	20.13	18.54	8.5%
Class A and Class B shares outstanding, year end (thousands)	125,295	125,388	0.0%
Weighted average Class A and Class B shares outstanding (thousands):			
Basic	125,409	126,219	(0.6)%
Diluted	125,934	126,687	(0.6)%

Notes:

(1) There were no discontinued operations or extraordinary items during these periods.

(2) The above data (other than Adjusted Earnings and Adjusted Earnings per Class A and Class B share) has been extracted from the financial statements, which have been prepared in accordance with GAAP and the reporting currency is the Canadian dollar.

(3) Refer to Significant Non-Operating Financial Items section for a description of adjustments to arrive at Adjusted Earnings.

(4) The dividend rate was reset to $1.09 (from 5.05% to 4.35%) for dividend periods commencing between December 2, 2006, and December 2, 2011.

(5) Series Second Preferred Shares Q, R and S were redeemed on May 18, 2007.

(6) The dividend rate was reset to $1.18 (from 5.25% to 4.70%) for dividend periods commencing between October 3, 2007, and October 3, 2012.

RECONCILIATION OF EARNINGS ATTRIBUTABLE TO CLASS A AND CLASS B SHARES AND ADJUSTED EARNINGS

Adjusted Earnings are referred to in various sections of this MD&A. The following table reconciles Adjusted Earnings, which are earnings attributable to Class A and Class B shares after adjustment for items that are not in the normal course of business nor a result of day-to-day operations. These items are usually of a non-recurring or one-time nature. Refer to Reconciliation of Earnings Attributable to Class A and Class B shares and Adjusted Earnings section for a description of these items (non GAAP items). A description of each of the adjustments is provided in the Significant Non-Operating Financial Items section.

	For the Year Ended December 31	
($ millions)	**2007**	2006
Earnings attributable to Class A and Class B shares	**386.7**	323.9
H.R. Milner Income Tax Reassessment (1)	**-**	12.4
2007 Change in the Taxation of Preferred Share Dividends (2)	**(15.6)**	-
2007 Changes in Income Taxes and Rates (3)	**(14.9)**	-
2006 Changes in Income Taxes and Rates (4)	**-**	(11.8)
Mark-to-Market Adjustment (5)	**(2.9)**	-
ATCO Gas Tax Reassessments (6)	**(9.5)**	-
Calgary Stores Block (7)	**-**	(3.7)
Adjusted Earnings	**343.8**	320.8

SIGNIFICANT NON-OPERATING FINANCIAL ITEMS

Consolidated and segmented financial results include the following Significant Non-Operating Financial Items.

(1) H.R. Milner Income Tax Reassessment

In 2006, the Canada Revenue Agency (CRA) issued a reassessment for Alberta Power (2000)'s 2001 taxation year. The CRA's reassessment treats the proceeds received from the sale of the H.R. Milner generating plant to the Alberta Balancing Pool as income rather than as a sale of an asset. The Company has appealed the reassessment to the Tax Court of Canada. The impact of the reassessment was a $12.4 million increase in interest and income tax expense, a $12.4 million decrease in earnings ($8.0 million recorded in the second quarter of 2006 and $4.4 million recorded in the third quarter of 2006), and a $28.8 million payment associated with the tax and interest assessed. It is expected that $16.4 million of this cash payment will be recovered by reducing income taxes payable through higher capital cost allowance claims in taxation years subsequent to the reassessed year.

(2) 2007 Change in the Taxation of Preferred Share Dividends

In 2007, the federal government announced an amendment to tax legislation pertaining to Part VI.1 tax (the tax payable on preferred share dividends paid by corporations). Prior to this change, corporations that had Part VI.1 tax payable were entitled to an income tax deduction equal to 9/4ths of the Part VI.1 tax payable. Effective January 1, 2003, this deduction was increased to three times the amount of the Part VI.1 tax payable. The CRA has been assessing corporate tax returns based on this proposed change being in effect since January 1, 2003, resulting in a reduction of taxes paid to the Canadian government. The Company recorded a one-time reduction to current income tax expense which resulted in increased earnings of $15.6 million relating to years prior to 2007. An additional increase to earnings of $0.8 million was recorded relating to the first quarter of 2007. Funds generated by operations increased by $15.6 million, offset by a similar reduction in changes in non-cash working capital, leaving the Company's cash position unchanged.

The earnings impact of the Part VI.1 tax adjustment by Business Group was as follows:

($ millions)	Years Prior to 2007	First Quarter of 2007	Total
Utilities	4.2	0.2	4.4
Power Generation	1.3	0.1	1.4
Global Enterprises	1.4	-	1.4
Corporate & Other and Intersegment Eliminations	8.7	0.5	9.2
Total	15.6	0.8	16.4

(3) 2007 Changes in Income Taxes and Rates

In 2007, the federal government announced a reduction in corporate tax rates from 19% to 15% by 2012. As a result of these changes, the Company made an adjustment to future income taxes amounting to $10.9 million in the fourth quarter of 2007. This one-time adjustment resulted in increased earnings of $10.9 million relating to the change in the future income tax liability as at December 31, 2006. An additional increase to earnings of $1.5 million was recorded relating to the change in the future income tax liability for the first nine months of 2007.

Additionally, in 2007 the British Parliament enacted a 2% reduction in the corporate income tax rate effective April 1, 2008, which impacted ATCO Power's operations in the U.K. This resulted in a further increase in the Company's 2007 earnings of $4.0 million.

The earnings impact of the 2007 Changes in Income Taxes and Rates adjustment by Business Group was as follows:

($ millions)	December 31, 2006 Balance	First 9 Months of 2007	Total
Canadian tax changes:			
Utilities	0.3	-	0.3
Power Generation	8.2	1.3	9.5
Corporate & Other and Intersegment Eliminations	2.4	0.2	2.6
	10.9	1.5	12.4
U.K. tax changes in Power Generation	4.0	-	4.0
Total	14.9	1.5	16.4

(4) 2006 Changes in Income Taxes and Rates

In 2006, federal and provincial governments announced a reduction in corporate tax rates from 22.12% to 19% by 2011 and from 11.5% to 10% by 2007 respectively. As a result of these changes, the Company made an adjustment to income taxes amounting to $11.8 million in the second quarter of 2006, most of which related to future income taxes. The adjustment increased the Company's 2006 earnings by $11.8 million.

($ millions)	Total
Utilities	1.9
Power Generation	7.2
Global Enterprises	2.3
Corporate and Other	0.4
Total	11.8

(5) Natural Gas Purchase Contracts and Associated Power Generation Revenue Contract Liability (Mark-to-Market Adjustment)

ATCO Power has long term contracts for the supply of natural gas for certain of its power generation projects. Under the terms of certain of these contracts, the volume of natural gas that ATCO Power is entitled to take is in excess of the natural gas required to generate power. As the excess volume of natural gas can be sold, ATCO Power is required to designate these entire contracts as derivative instruments. ATCO Power recognized a non-current derivative asset of $59.0 million on January 1, 2007; thereafter, ATCO Power will record Mark-to-Market Adjustments through earnings as the fair values of these contracts change with changes in future natural gas prices. These natural gas purchase contracts mature in November 2014.

As all but the excess volume of natural gas is committed to ATCO Power's power generation obligations, ATCO Power could not recognize the entire fair values of these natural gas purchase contracts in its revenues. Consequently, on January 1, 2007, ATCO Power recognized a provision for a power generation revenue contract in the amount of $44.8 million, thereafter, ATCO Power will record adjustments to the power generation revenue contract liability concurrently with the Mark-to-Market Adjustments for the natural gas purchase contracts derivative asset. This power generation revenue contract liability is included in deferred credits in the consolidated balance sheet.

The Mark-to-Market Adjustment for the derivative asset and the corresponding adjustment for the associated power generation revenue contract liability increased earnings by $2.8 million, net of income taxes, for the three months ended December 31, 2007 and increased earnings by $2.9 million, net of income taxes, for the year ended December 31, 2007. At December 31, 2007, the natural gas purchase contracts derivative asset is $72.5 million and the power generation revenue contract liability is $54.2 million.

(6) ATCO Gas Tax Reassessments

In the fourth quarter of 2007, ATCO Gas successfully appealed previous CRA reassessments which resulted in an $8.8 million decrease in income taxes and an increase in interest income (net of tax) of $0.7 million for an overall increase to the Company's earnings of $9.5 million. These appeals applied to the 1999 to 2006 taxation years and allow ATCO Gas to treat previously reported capital outlays as current expenditures for income tax purposes.

(7) Calgary Stores Block

In October 2001, the AUC approved the sale by ATCO Gas of certain properties in the City of Calgary, known as the Calgary Stores Block, for $6.6 million (excluding costs of disposition) and directed that $4.1 million of the proceeds be allocated to customers. ATCO Gas appealed the decision through the courts until the matter was addressed by the Supreme Court of Canada on February 9, 2006. The Supreme Court decision upheld ATCO Gas' rights to these proceeds and directed the AUC to issue a new decision to this effect. In the third quarter of 2006, ATCO Gas recorded an additional $4.1 million net proceeds from the sale, which increased ATCO Gas' earnings by $3.7 million.

CONSOLIDATED REVENUES AND EARNINGS

Consolidated **revenues** in 2007 were **substantially unchanged** with a **decrease** of $25.5 million (1.0%) over 2006.

Decreased revenues were primarily attributable to the refund of future income tax balances resulting from the ATCO Electric 2007-2008 GTA Decision (refer to Regulatory Developments – ATCO Electric section), lower natural gas fuel purchases recovered on a "no-margin" basis and the impact of a fourth quarter outage at the Barking generating plant in ATCO Power's U.K. operations, and lower prices and volumes of natural gas processed for NGL extraction in ATCO Midstream. These decreases were partially offset by colder temperatures, higher sales per customer and customer growth in ATCO Gas, the timing and demand of natural gas storage capacity sold and higher storage fees in ATCO Midstream, and the impact of finalization of customer rates related to the ATCO Electric 2007-2008 GTA Decision (refer to Regulatory Developments – ATCO Electric section).

Earnings in 2007 were $386.7 million, an **increase** of $62.8 million (19.4%), over 2006, including the impact of the adjustments identified in the Significant Non-Operating Financial Items section.

In 2007, **Adjusted Earnings** were $343.8 million, an **increase** of $23.0 million (7.2%) over 2006. The primary reasons for the increased Adjusted Earnings in 2007 were colder temperatures, higher sales per customer and customer growth in ATCO Gas, and the timing and demand of natural gas storage capacity sold, higher storage fees and higher margins for NGL extraction in ATCO Midstream. These increases were partially offset by increased operation and maintenance and depreciation expenses in ATCO Gas due to customer growth and increased capital expenditures, and lower earnings in ATCO Power's Alberta generating plants due to lower spark spreads realized on sales of electricity and the impact of a fourth quarter outage at the Barking generating plant in ATCO Power's U.K. operations.

Interest and other income increased by $5.8 million to $64.3 million mainly due to increased income earned on cash balances due to higher short term interest rates and Mark-to-Market Adjustment in ATCO Power, partially offset by the Calgary Stores Block decision in 2006 in ATCO Gas.

CONSOLIDATED EXPENSES

($ millions)	For the Year Ended December 31		
	2007	2006	Change to 2007 (2007-2006)
Operating expenses:			
Natural gas supply	**42.1**	36.4	15.7%
Purchased power	**49.9**	46.1	8.2%
Operation and maintenance	**941.6**	950.3	(0.9)%
Selling and administrative	**216.8**	207.5	4.5%
Franchise fees	**151.2**	150.4	0.5%
	1,401.6	1,390.7	0.8%
Depreciation and amortization	**351.5**	348.5	0.9%
Interest	**217.4**	222.9	(2.5)%
Dividends on equity preferred shares	**34.3**	35.8	(4.2)%
Income taxes	**77.7**	167.1	(53.5)%

In 2007, **operating expenses** were **substantially unchanged**. Increases were primarily due to increased business activity in ATCO Gas and ATCO Electric and the recording of GHG emission fees by Alberta Power (2000) recovered from its customers in accordance with the PPAs which cover costs of recent changes in environmental laws (refer to Business Risks - Environmental Matters section). These increases were partially offset by lower natural gas fuel purchases recovered on a "no-margin" basis in ATCO Power's U.K. operations.

Depreciation and amortization expenses increased primarily due to capital additions in 2006 and 2007 in the Utilities segment, partially offset by a one-time amortization expense of certain deferred items approved by the AUC for ATCO Gas in 2006.

Interest expense decreased by $5.5 million (2.5%) over 2006 primarily due to repayment of non-recourse long term debt ($122.8 million in 2007 and $64.6 million in 2006) and the H.R. Milner Income Tax Reassessment in 2006

The impact of tax adjustments in 2006 and 2007 was a **decrease** in income taxes of $89.4 million (53.5%). The following table summarizes these impacts:

($ millions)	For the Year Ended December 31		
	2007	2006	Total
H.R. Milner Tax Reassessment	-	(7.2)	(7.2)
2006 Change in Income Taxes and Rates	-	11.8	11.8
2007 Change in Income Taxes and Rates	**(14.9)**	-	(14.9)
2007 Change in Taxation of Preferred Share Dividends	**(15.6)**	-	(15.6)
2007/2006 ATCO Gas Tax Reassessments	**(8.8)**	1.0	(7.8)
2006 ATCO Gas refund of future income taxes	-	4.0	4.0
2007 ATCO Electric change in tax methodology:			
• refund of future income taxes	**(34.4)**	-	(34.4)
• refund of current income taxes	**(5.2)**	-	(5.2)
• impact on 2007 income taxes	**(11.8)**	-	(11.8)
2007 Provincial, Federal and Preferred Share Dividends tax changes on 2007 earnings	**(7.0)**	-	(7.0)
Other	**(1.3)**	-	(1.3)
	(99.0)	9.6	(89.4)

SEGMENTED INFORMATION

($ millions)	Utilities	Power Generation	Global Enterprises	Corporate & Other	Intersegment Eliminations	Total
			For the Year Ended December 31			
2007						
Revenues	**1,116.5**	**773.0**	**672.6**	**13.6**	**(170.8)**	**2,404.9**
Earnings attributable to Class A and Class B shares	**139.7**	**134.7**	**110.0**	**3.1**	**(0.8)**	**386.7**
2007 Changes in the Taxation of Preferred Share Dividends (2)	**(4.2)**	**(1.3)**	**(1.4)**	**(8.7)**	**-**	**(15.6)**
2007 Changes in Income Taxes and Rates (3)	**(0.3)**	**(12.2)**	**-**	**-**	**(2.4)**	**(14.9)**
Mark-to-Market Adjustment (5)	**-**	**(2.9)**	**-**	**-**	**-**	**(2.9)**
ATCO Gas Tax Reassessments (6)	**(9.5)**	**-**	**-**	**-**	**-**	**(9.5)**
Adjusted Earnings	**125.7**	**118.3**	**108.6**	**(5.6)**	**(3.2)**	**343.8**
Capital expenditures	**588.9**	**49.2**	**62.7**	**-**	**-**	**700.8**
Operating expenses	**640.6**	**422.6**	**486.1**	**18.6**	**(166.3)**	**1,401.6**
2006						
Revenues	1,110.8	799.5	667.2	12.7	(159.8)	2,430.4
Earnings attributable to Class A and Class B shares	121.2	119.2	101.0	(11.7)	(5.8)	323.9
H.R. Milner Income Tax Reassessment (1)	-	12.4	-	-	-	12.4
2006 Changes in Income Taxes and Rates (4)	(1.9)	(7.2)	(2.3)	(0.4)	-	(11.8)
Calgary Stores Block (7)	(3.7)					(3.7)
Adjusted Earnings	115.6	124.4	98.7	(12.1)	(5.8)	320.8
Capital expenditures	505.0	48.1	14.2	0.4	-	567.7
Operating expenses	601.4	431.3	490.5	18.7	`(151.2)	1,390.7

Note:
(1) Number references refer to order of items disclosed in the Significant Non-Operating Financial Items section.

Utilities

Utilities **revenues** in 2007 were **substantially unchanged** with an increase of $5.7 million (0.5%) from 2006. Items that contributed to increased revenues were colder temperatures, higher sales per customer and customer growth in ATCO Gas and the impact of finalization of customer rates offset by the refund of future income tax balances resulting from the ATCO Electric 2007-2008 GTA Decision (refer to Regulatory Developments – ATCO Electric section).

Temperatures in ATCO Gas in 2007 were 1.0% warmer than normal, compared to 5.5% warmer than normal in 2006.

Earnings for 2007 were $139.7 million, an **increase** of $18.5 million (15.3%) over 2006, including the impact of the adjustments identified in the Significant Non-Operating Financial Items section.

In 2007, **Adjusted Earnings** were $125.7 million, an **increase** of $10.1 million (8.7%) over 2006. The primary reason for higher Adjusted Earnings in 2007 was colder temperatures, higher sales per customer and customer growth in ATCO Gas. This increase was partially offset by increased operation and maintenance and depreciation expenses in ATCO Gas due to customer growth and increased capital expenditures.

Capital expenditures to maintain capacity and meet planned growth were $588.9 million in 2007. Capital expenditures rose by $83.9 million from 2006 as a result of the rapid growth of the Alberta economy, customer growth, and safety and reliability enhancements. Capital expenditures for 2008 to 2010 are expected to be approximately $3.0 billion for the Utilities segment.

Regulatory Developments

The AUC administers acts and regulations regarding rates, financing, accounting, construction, operation, and service area. The return on common equity for regulated utility operations was established by the AUC using its standardized rate of return methodology for utilities in Alberta. The rate of return was established in 2004 and is adjusted annually by 75% of the change in long term Government of Canada bond yield, similar to the adjustment mechanism used by the National Energy Board. The rate of return in 2007 was 8.51% and for 2008 has been set at 8.75%. The rate of return in 2006 was 8.93%.

Benchmarking

ATCO Electric, ATCO Gas, and ATCO Pipelines purchase information technology services from ATCO I-Tek. ATCO Electric and ATCO Gas also purchase customer care and billing services from ATCO I-Tek. The recovery of these costs in customer rates is subject to AUC approval. Since 2003, the costs have been approved on a placeholder basis, and are subject to final AUC approval after completion of a collaborative benchmarking process. A benchmarking report was received on January 23, 2008, and an application is anticipated to be made to the AUC by the end of February 2008 to finalize the placeholder costs. An AUC decision is expected before the end of the second quarter of 2008.

Adjustments to ATCO I-Tek's fees as a result of the benchmarking report for information technology services will be retroactive to January 1, 2008. Price changes relating to ATCO I-Tek's customer care and billing contract services for ATCO Gas and ATCO Electric will be applied following renegotiation of a new fee schedule.

ATCO Electric

2007 and 2008 General Tariff Application

In November 2006, ATCO Electric filed a general tariff application (GTA) with the AUC for 2007 and 2008 requesting, among other things, increased revenues to recover increased financing, depreciation and operating costs associated with increased rate base in Alberta. ATCO Electric also filed an application requesting interim refundable rates for transmission and distribution operations, pending the AUC's decision on the GTA. In December 2006, ATCO Electric received a decision from the AUC approving interim refundable rate increases amounting to 50% of ATCO Electric's requested increases for transmission and distribution operations.

In September 2007, the AUC issued a decision on ATCO Electric's GTA for 2007 and 2008 (ATCO Electric GTA Decision). The decision established, among other things, the amount of revenue to be collected in 2007 and 2008 from customers for transmission and distribution services. The AUC also approved a return on common equity of 8.51% for 2007, as determined by its standardized rate of return methodology. The effect of this decision on the earnings of ATCO Electric was not material as higher revenues primarily resulting from increased capital expenditures and previously approved interim customer rates were offset by a lower approved rate of return on common equity (8.51% in 2007 versus 8.93% in 2006) and other adjustments.

The decision also directed ATCO Electric to change its income tax methodology for federal purposes. This change in tax methodology does not affect earnings as ATCO Electric's revenues and income tax expense were reduced by similar amounts. Accordingly, in the third quarter, ATCO Electric recorded a reduction in future income tax liabilities of $34.4 million and a liability to customers of $49.3 million, offset by a regulatory asset of $14.9 million which represents current income tax savings to be realized in future periods. Unrecorded future income tax liabilities increased by $34.4 million as a result of this decision. In December 2007, ATCO Electric refunded $16.1 million of the liability to transmission customers, thereby realizing $5.2 million of current income tax savings, which further reduced revenues, and reduced the future income taxes to be refunded by $10.9 million, and will be refunding the remaining $23.5 million balance to distribution customers over a five year period commencing in 2008.

Transmission Infrastructure Projects

In August 2006, the AUC approved the AESO application for increased transmission infrastructure in northwest Alberta. The AESO has approval to assign to the transmission facility owner, ATCO Electric, work consisting of several distinct projects that is expected to result in 725 kilometres of new transmission lines to be constructed by 2011.

The first of these projects was assigned by the AESO in June 2007, with final approval received from the AUC on November 23, 2007. This first project consists of the construction of a 226 kilometre transmission line with an estimated cost of $210 million and anticipated completion by March 31, 2010.

As a result of price escalation caused by the change in completion date of the remaining distinct projects (post 2010), coupled with the increasing costs of construction in Alberta, ATCO Electric is unable to estimate the cost of the entire project at this time.

In addition to the increased transmission infrastructure in northwestern Alberta, ATCO Electric anticipates that an additional 180 kilometres of transmission line projects will be required in its service area over the next five years.

ATCO Gas

2005, 2006, and 2007 General Rate Application

On January 27, 2006, ATCO Gas received a decision on its general rate application which was filed with the AUC in May 2005 for 2005, 2006, and 2007. The decision established the amount of revenue ATCO Gas can recover through distribution rates for natural gas distribution service to its customers for 2005 through 2007. The AUC also approved a rate of return on common equity of 9.5% for 2005, 8.93% for 2006 and 8.51% for 2007, as determined by its standardized rate of return methodology.

In May 2006, the City of Calgary filed a review and variance application with the AUC, alleging that the AUC made errors in the decision related to the calculation of working capital needed by ATCO Gas to operate its Carbon natural gas storage facility. The AUC issued its decision on January 17, 2007, denying the City of Calgary's application. On February 15, 2007, the City of Calgary filed for leave to appeal this review and variance decision with the Alberta Court of Appeal. On June 19, 2007, the application was heard with the court granting the City of Calgary leave to appeal on August 31, 2007. The appeal is scheduled to be presented at a hearing set for September 9, 2008.

In October 2006, ATCO Gas filed a review and variance application with the AUC for the ATCO Gas general rate application (GRA) decision. The application alleges that the AUC made errors in the ATCO Gas GRA decision related to the approved level of administrative expense. In December 2006, the AUC issued a decision which acknowledged an error for a portion of the administrative expense in question. On April 18, 2007, the AUC agreed to review its original decision. On November 27, 2007, a decision on this matter was received granting ATCO Gas $4.7 million in costs to be collected during the first two quarters of 2008, with a total increase to ATCO Gas' 2007 earnings of $3.2 million.

2008 and 2009 General Rate Application

In November 2007, ATCO Gas filed a general rate application with the AUC for 2008 and 2009 requesting, among other things, increased revenues to recover increased financing, depreciation and operating costs associated with increased rate base in Alberta. ATCO Gas also filed an application requesting interim adjustable rates pending the AUC's decision on the general rate application. In December 2007, ATCO Gas received a decision from the AUC approving interim adjustable rate increases amounting to 50% of ATCO Gas' requested revenue increase.

Carbon Natural Gas Storage Facility

ATCO Gas owns a 43.5 petajoule natural gas storage facility located at Carbon, Alberta. ATCO Gas has leased the entire storage capacity of the facility to ATCO Midstream. ATCO Gas has taken the position that the facility is no longer required for utility service and should be removed from regulation. In the process of obtaining AUC approval a number of significant events have occurred. In July 2004, the AUC initiated a written process to consider its role in regulating the operations of the facility. In June 2005, the AUC issued a decision with respect to this process. In addition to addressing other matters, the decision found that the AUC has the authority, when necessary in the public interest, to direct a utility to utilize a particular asset in a specific manner, even over the objection of the utility. ATCO Gas filed for leave to appeal the decision with the Alberta Court of Appeal. In October 2005, the AUC established processes to review the use of the facility for utility purposes. A hearing to review the use of the facility for revenue generation was held in April 2006, and a hearing to review the use of the facility for load balancing was held in June 2006. On October 11, 2006, the AUC issued a decision confirming ATCO Gas' position that the facility is no longer required for utility service with respect to the use of the facility for load balancing purposes. The City of Calgary then filed a leave to appeal and a Review and Variance application of this decision. On February 5, 2007, the AUC issued a decision in which it determined that a legitimate utility use for the facility is that it be used for purposes of generating revenues to offset customer rates. This decision requires ATCO Gas to maintain the status quo with respect to the use of the facility including the lease of the entire facility to ATCO Midstream. On February 26, 2007, ATCO Gas filed for leave to appeal this decision with the Alberta Court of Appeal (refer to Business Risks - Regulated Operations – Carbon Natural Gas Storage Facility section). The Alberta Court of Appeal granted ATCO Gas' leave to appeal on October 24, 2007. A hearing has been set for May 9, 2008.

Deferred Gas Account

ATCO Gas has filed an application with the AUC to address, among other things, corrections required to historical transportation imbalances (the process whereby third party natural gas supplies are reconciled to amounts actually shipped in the Company's pipelines) that have impacted ATCO Gas' deferred gas account. In April 2005, the AUC issued a decision resulting in a 15% decrease in the transportation imbalance adjustments sought by ATCO Gas. The decision resulted in a decrease to ATCO Gas' 2005 revenues and earnings of $1.8 million and $1.2 million, respectively. The City of Calgary filed a leave to appeal the AUC's decision. ATCO Gas filed a cross appeal of the AUC's decision. The leave to appeal was heard by the Alberta Court of Appeal on April 18, 2006. On July 7, 2006, the Alberta Court of Appeal issued its decision granting the City of Calgary's leave to appeal on the question of whether the AUC erred in law or jurisdiction in assuming that it had the authority to allow recovery in 2005, for costs relating to prior years. At a hearing on April 13, 2007, the Alberta Court of Appeal declined to consider the City of Calgary's appeal and referred the jurisdictional question back to the AUC. On September 5, 2007, the AUC commenced proceedings to address the jurisdictional question. On January 3, 2008, the AUC issued a decision confirming its jurisdiction to approve the prior period adjustment it had approved previously.

ATCO Pipelines

2008 and 2009 General Rate Application

On October 1, 2007, ATCO Pipelines filed a general rate application for the 2008 and 2009 test years requesting increased revenues to recover increased financing, depreciation, and operating costs associated with an increased rate base in Alberta. In November 2007, ATCO Pipelines filed an application requesting interim adjustable rates pending the AUC's decision on the general rate application. In December 2007, ATCO Pipelines received a decision from the AUC approving interim adjustable rate increases amounting to 40% of ATCO Pipelines' requested revenue increase. A decision from the AUC on the general rate application is not expected until the fourth quarter of 2008.

On October 5, 2007, the AUC approved ATCO Pipelines' request to negotiate, until January 11, 2008, a settlement with customers for revenue requirements. On January 11, 2008, ATCO Pipelines informed the AUC that a negotiated settlement had not been reached.

Competitive Proceedings

During 2007, the AUC reinstituted its review of the competitive natural gas pipeline issues under its jurisdiction. This review will address competitive issues between ATCO Pipelines and NOVA Gas Transmission Ltd. (NOVA). This review process is continuing.

Other Matters

The Company has a number of other regulatory filings and regulatory hearing submissions before the AUC for which decisions have not been received. The outcome of these matters cannot be determined at this time.

Power Generation

Power Generation 2007 **revenues decreased** by $26.5 million (3.3%) over 2006, primarily as a result of lower natural gas fuel purchases recovered on a "no-margin" basis and the impact of a fourth quarter outage at the Barking generating plant in ATCO Power's U.K. operations. These decreases were partially offset by the recording of GHG emission fees by Alberta Power (2000) recovered from its customers in accordance with the PPAs which cover costs of recent changes in environmental laws (refer to Business Risks - Environmental Matters section).

Earnings for 2007 were $134.7 million, an **increase** of $15.5 million (13.0%) over 2006 including the impact of the adjustments identified in the Significant Non-Operating Financial Items section.

Adjusted Earnings were $118.3 million, a **decrease** of $6.1 million (4.9%) over 2006. The primary reasons for the lower Adjusted Earnings in 2007 were lower earnings in ATCO Power's Alberta generating plants due to lower spark spreads realized on sales of electricity, higher general and administrative costs in ATCO Power's operations and the impact of a fourth quarter outage at the Barking generating plant in ATCO Power's U.K. operations.

Availability of Power Generation's generating plants by geographic region is set forth below:

	For the Year Ended December 31		
	2007	2006	Change to 2007 (2007-2006)
ATCO Power			
Canada	**96.3%**	95.7%	0.6%
U.K. [1]	**83.2%**	91.6%	(8.4)%
Australia	**94.6%**	94.4%	0.2%
Alberta Power (2000)			
Canada	**90.2%**	90.0%	0.2%

Note:

(1) The lower availability in 2007 reflects the outage at the Barking generating plant which started on October 25, 2007. The plant is expected to return to service in March 2008.

Unplanned Outage at Barking Power Plant

On October 25, 2007, ATCO Power's 1,000 MW Barking generating plant in the U.K. experienced an unplanned outage due to failure in a steam turbine generator. This outage reduced the plant capacity to approximately 400 MWs during this period. The financial impact of the failure was a decrease to ATCO Power's 2007 earnings of approximately $8.6 million. Discussions have been ongoing with insurers and their advisers, who have endorsed the repair strategy and have approved interim payments which commenced in early 2008. As a result of the uncertainty of the timing of the units return to service and the ability to allocate the interim payment proceeds, ATCO Power's first quarter 2008 earnings may be lower as a result of this continuing situation.

TXU Europe Settlement

On November 19, 2002, an administration order was issued by an English Court against TXU Europe Energy Trading Limited (TXU Europe) which had a long term "off take" agreement for 27.5% of the power produced by the 1,000 megawatt Barking generating plant in London, England, in which the Company, through Barking Power, has a 25.5% equity interest. Barking Power had filed a claim for damages for breach of contract related to TXU Europe's obligations to purchase 27.5% of the power produced by the Barking generating plant. Following negotiations with the administrators, an agreement was reached with respect to Barking Power's claim.

In settlement of its claim, Barking Power received distributions of £144.5 million (approximately $327 million) in 2005, of which the Company's share was $83.1 million, and distributions of £34.8 million (approximately $71 million) in 2006, of which the Company's share was $18.2 million. Income taxes of approximately $28.5 million relating to the distributions have been paid.

The Company's share of this settlement is being recognized in earnings in equal monthly amounts over the remaining term of the TXU Europe contract to September 30, 2010. Based on the foreign currency exchange rate in effect at December 31, 2007, earnings after income taxes of approximately $10 million per year have yet to be recognized. These earnings will be dependent upon foreign currency exchange rates in effect at the time that the earnings are recognized.

On May 31, 2007, £95.0 million of the TXU proceeds, of which the Company's share was $52.7 million, were applied to Barking Power's non-recourse long term debt.

Other Power Generation Developments

On January 30, 2008, Alberta Power (2000)'s 150 MW Battle River Unit 4 experienced an unplanned outage due to a failure in the unit's generator. It is anticipated that the unit will remain off-line until mid March 2008. Alberta Power (2000) has claimed Force Majeure relief under the provisions of its PPA. If the claim for relief is successful, Alberta Power (2000) does not expect any material financial impact. If the claim for relief is not successful, the cash impact will be approximately $10 million. Due to the availability incentive pool deferral account, Alberta Power (2000) does not expect any material earnings impact in 2008 as a result of this outage.

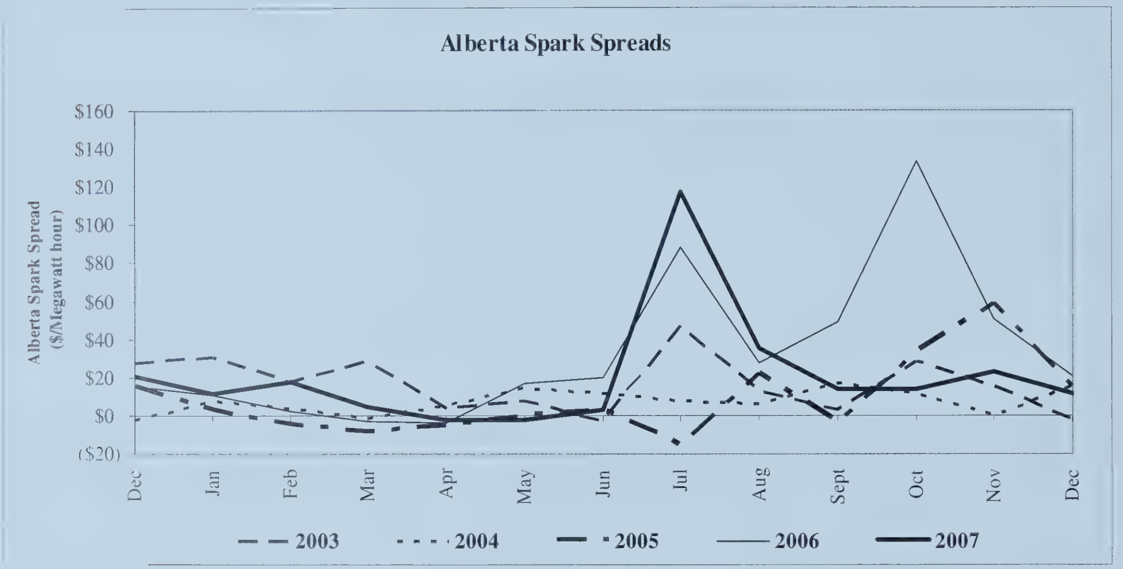
On July 1, 2007, the Piikani Nation of Brockett, Alberta exercised its option to purchase a 25% interest in ATCO Power's and ATCO Resources' 32 MW hydroelectric generating plant at the Oldman River dam near Pincher Creek, Alberta.

On May 10, 2007, ATCO Power announced that it would construct a 45 MW natural gas-fired generating unit for its Valleyview generating plant in Valleyview, Alberta. All of the electricity produced by the unit is to be sold to the Alberta Power Pool. Construction of the unit is expected to be completed in the fourth quarter of 2008.

The majority of ATCO Power's electricity sales to the Alberta Power Pool are from natural gas-fired generating plants, and as a result earnings are affected by natural gas prices and Alberta Power Pool prices. Alberta Power Pool electricity prices averaged $66.95 per MWh in 2007, compared to average prices of $80.79 per MWh in 2006. Natural gas prices averaged $6.10 per GJ, compared to average prices of $6.17 per GJ in 2006. These electricity and natural gas prices resulted in an average Spark spread of $21.22 per MWh in 2007, down from $34.52 per MWh in 2006.

Changes in spark spread affect the results of approximately 406 MW of plant capacity owned in Alberta by ATCO Power and Alberta Power (2000) out of a total Alberta-owned capacity of approximately 1,709 MWs and approximately 70 MW of plant capacity owned in the U.K. by ATCO Power out of a total U.K.-owned capacity of approximately 262 MW and a worldwide owned capacity by ATCO Power and Alberta Power (2000) of approximately 2,474 MW.

The following chart demonstrates the volatility of Alberta sparks spreads experienced by ATCO Power for the period of December 2002 to December 2007.



The Company's merchant power sales are effected by volatility in power and natural gas prices caused by market forces such as fluctuating supply and demand for electricity. The Company manages this volatility through its adoption of asset optimization strategies for bidding its merchant power into both the Alberta and U.K. power markets.

Alberta Power (2000)

The generating plants of Alberta Power (2000) were regulated by the AUC until December 31, 2000, but are now governed by legislatively mandated PPAs that were approved by the AUC. These plants are included in regulated operations primarily because the PPAs are designed to allow the owners of generating plants constructed before January 1, 1996, to recover their forecast fixed and variable costs and to earn a return at the rate specified in the PPAs. Each plant will become deregulated upon the earlier of one year after the expiry of its PPA or a decision to continue to operate the plant. For PPAs expiring prior to 2019, Alberta Power (2000) has one year after the expiry of a PPA to determine whether to decommission the generating plant in order to fully recover plant decommissioning costs or to continue to operate the plant and be responsible for decommissioning costs. For PPAs expiring after 2018 decommissioning costs are the responsibility of the plant owner. Each PPA is to remain in effect until the earlier of the last day of the estimated life of the related generating plant or December 31, 2020.

Alberta Power (2000) operated the Rainbow generating plant during 2006 and the electricity generated was sold to the Alberta Power Pool. Alberta Power (2000) had one year after the expiry of the PPA for the Rainbow generating plant (December 31, 2005) to determine whether to decommission the plant in order to fully recover plant decommissioning costs or to continue to operate the plant. In 2007, the AESO and Alberta Power (2000) executed a contract resulting in Alberta Power (2000) continuing to operate the plant and thus be responsible for future decommissioning costs. These costs are included in Alberta Power (2000)'s asset retirement obligation liability. Under the terms of the agreement, the Company makes the plant available for transmission support services and can continue to sell energy into the Alberta Power Pool.

Over 99% of the electricity generated by Alberta Power (2000) is sold pursuant to PPAs. Under the PPAs, Alberta Power (2000) is required to make the generating capacity for each generating unit available to the purchaser of the PPA for that unit. In return, Alberta Power (2000) is entitled to recover its forecast fixed and variable costs for that unit from the PPA purchaser, including a return on common equity equal to the long term Government of Canada bond rate plus 4.5% based on a deemed common equity ratio of 45%. Many of the forecast costs will be determined by indices, formulae or other means for the entire period of the PPA. Alberta Power (2000)'s actual results will vary and depend on performance compared to the forecasts on which the PPAs were based. The return on common equity rate used in its PPA tariff calculations for Alberta Power (2000) was 8.65% in 2007 and 8.75% for 2006. The rate of return on common equity for 2008 is 8.88%.

Under the terms of the PPAs, Alberta Power (2000) is subject to an incentive/penalty regime related to generating unit availability. Incentives are payable by the PPA counterparties for availability in excess of predetermined targets, and penalties are payable by Alberta Power (2000) when the availability targets are not achieved.

Accumulated incentives in excess of accumulated penalties are deferred. For any of the individual PPAs, should accumulated incentives plus estimated future incentives exceed accumulated penalties plus estimated future penalties, the excess will be amortized to revenues on a straight-line basis over the remaining term of the PPAs. Should accumulated penalties plus estimated future penalties exceed accumulated incentives plus estimated future incentives, the shortfall will be expensed in the year the shortfall occurs.

During 2007, the deferred availability incentive account increased by $2.2 million to $41.8 million at December 31, 2007, due to additional availability incentives received for plant availability in excess of amortization and planned outages. During 2007, the amortization of deferred availability incentives, recorded in revenues, increased by $1.2 million to $11.8 million, compared to 2006.

Greenhouse Gas Emissions

In 2007, Alberta Power (2000) began to record GHG emissions fees recovered from its customers in accordance with the PPAs which cover costs of recent changes in environmental laws (refer to Business Risks – Environmental Matters section). As the collection of the majority of these fees is on a flow-through basis, there is minimal impact on the earnings of Alberta Power (2000).

Global Enterprises

Global Enterprises **revenues increased** by $5.4 million (0.8%) from 2006. Items that increased revenues include the timing and demand of natural gas storage capacity sold and higher storage fees in ATCO Midstream. These increases were offset by lower prices and volumes of natural gas processed for NGL extraction in ATCO Midstream.

Earnings for 2007 were $110.0 million, an **increase** of $9.0 million (8.9%) over 2006, including the impact of the adjustments identified in the Significant Non-Operating Financial Items section.

In 2007, **Adjusted Earnings** were $108.6 million, an **increase** of $9.9 million (10.0%) over 2006. The primary reason for the higher Adjusted Earnings in 2007 was the timing and demand of natural gas storage capacity sold, higher storage fees and higher margins for NGL in ATCO Midstream.

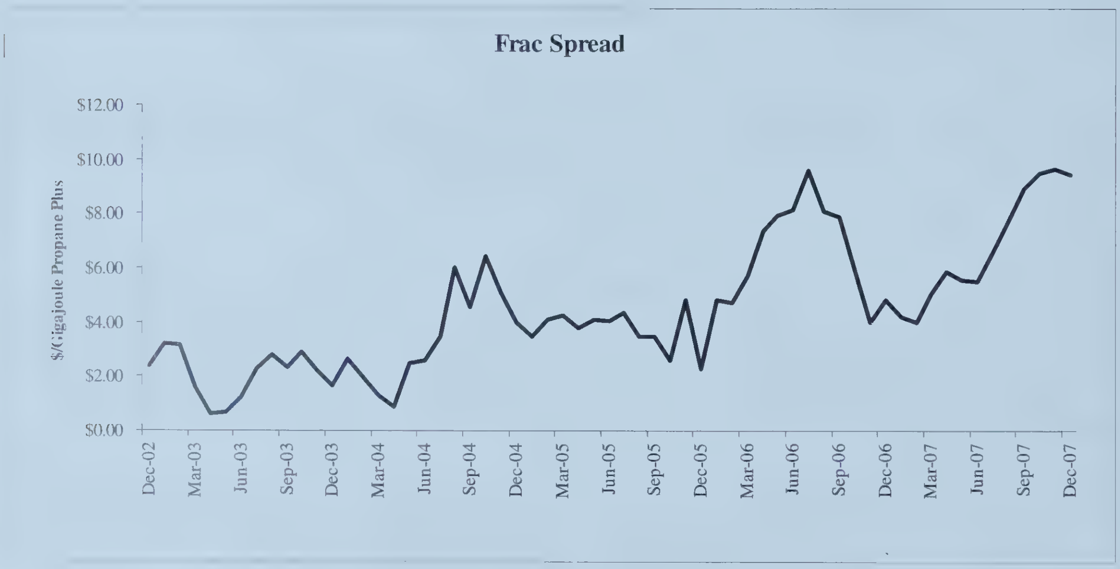
ATCO Midstream

ATCO Midstream provides non-regulated gathering and processing, NGL extraction, and natural gas storage services to natural gas producers.

NGL Extraction Operations

A portion of ATCO Midstream's revenues is derived from the extraction of NGL from natural gas and the marketing of NGL products under supply or marketing contracts. Total licensed capacity of ATCO Midstream's NGL plants is 371 million cubic feet per day.

ATCO Midstream's NGL extraction operations involve the extraction of NGL from natural gas and the replacement (on a heat content equivalent basis) of the NGL extracted with shrinkage gas. For Propane Plus, the difference between the price of natural gas and the value of the liquids extracted is commonly referred to as the frac spread. Frac spreads vary with fluctuations in the price of natural gas and the prices of the applicable liquid extracted. Frac spreads can be volatile, as shown in the following graph, which illustrates monthly frac spreads during the period of December 2002 to December 2007.



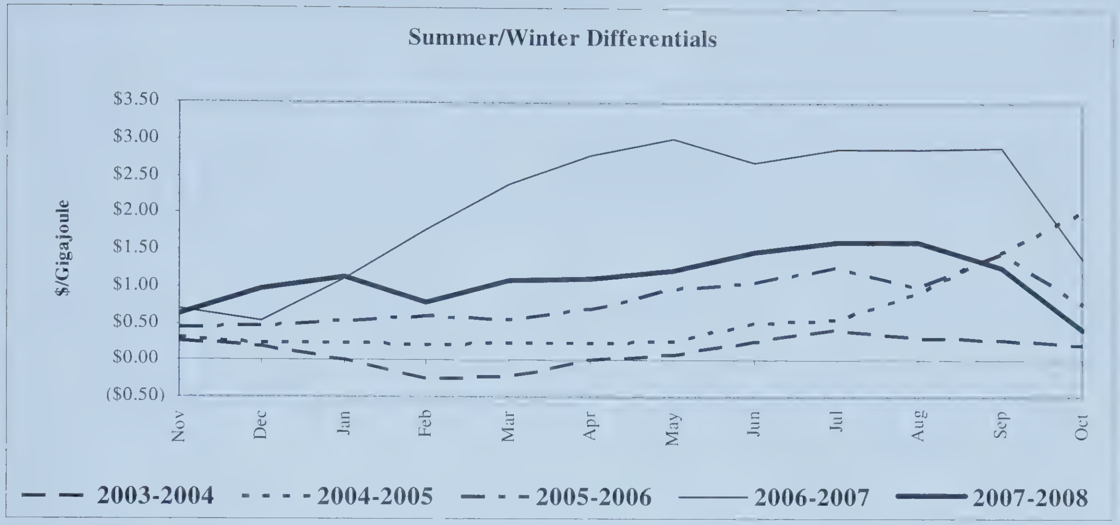
Note:
(1) The above chart represents measurements of Frac spreads in Alberta, as reported by an independent consultant.

Fluctuations in frac spreads affect ATCO Midstream's earnings and cash flow from operations. A $1.00 change in the average annual frac spread impacts annual earnings by approximately $6 million.

Storage Operations

The majority of ATCO Midstream's natural gas storage revenues come from seasonal differences (summer/winter) in the price of natural gas. Recognition of ATCO Midstream's revenues is determined through the terms of the contractual arrangements.

Summer/winter natural gas storage differentials can be volatile, as shown in the following graph, which illustrates a range of seasonal spreads experienced during the storage periods from 2003-2004 to 2007-2008. Storage differentials at any point in time may not always be indicative of the storage revenues and earnings for the same period due to the types of contracts and the timing of revenue recognition associated with these contracts.



ATCO Midstream faces risks associated with natural gas commodity prices volatility due to weather related supply and demand. To mitigate this risk ATCO Midstream maintains portfolios of varied contracts, delivery terms, capacities and customers for its storage operations.

In the fourth quarter of 2007, ATCO Midstream purchased a 50% interest in a joint venture which owns and operates a 2.5 million cubic feet per day natural gas processing plant near Kisbey, Saskatchewan, and 22 kilometres of pipeline serving four regional natural gas producers. Bayhurst Energy Services Corporation, a subsidiary of SaskEnergy Incorporated, owns the remaining interest in the joint venture and operates the plant, with ATCO Midstream providing operational and marketing support.

ATCO Frontec

ATCO Frontec, through its own operations and through a number of joint ventures, provides project management and technical services for customers in the industrial, defence, telecommunications and transportation sectors. Activities include the operation and maintenance of the North Warning System, Alaska Radar System and various remote sites for Northwestel Inc. in northern Canada. ATCO Frontec provides construction, site support and technical support for NATO, United Nations and the Swedish Armed Forces in Afghanistan and eastern Europe. ATCO Frontec also provides airport operation and maintenance, facilities management, bulk fuel storage and distribution and a wide variety of services and business activities in numerous locations throughout Canada. A number of the Canadian operations are conducted with a variety of aboriginal partners throughout Canada's north.

The following is a summary of the principal contracts which provide significant contributions to ATCO Frontec's earnings:

Contract	Customer	Start Date	Completion Date	Possible Extension [1]
Alaska Radar System [2]	U.S. Department of Defense	Oct. 2004	Sep. 2008	2014
North Warning System [2]	Department of National Defense	Sep. 2001	Sep. 2009	2011
Iqaluit Fuel Contract [2]	Government of Nunavut	Jun. 2007	Nov. 2012	2017
Stabilization Force Organization	NATO	Feb. 2004	Nov. 2008	-
Kabul International Airport	NATO	Feb. 2005	Mar. 2008	yr to yr
NATO Flight Training	NATO	Jun. 2000	May 2020	-
Kandahar Projects	NATO	Sep. 2007	Sep. 2010	2012

Notes:
(1) The contract may be extended at the option of the customer.
(2) Joint venture with aboriginal partners.

Recent Developments

In June 2007, ATCO Frontec was awarded five NATO support contracts at the Kandahar Airfield in Afghanistan for up to five years. Specific sectors of responsibility include fire and crash rescue, visiting aircraft services, roads and grounds maintenance, facility maintenance, construction, engineering, equipment and vehicle maintenance, aircraft movement control and terminal transport, accommodation services, supply operations, airfield mechanical transport, delivery of potable water, sewage management, and waste management and disposal.

In June 2007, UQSUQ Corporation, a joint venture between ATCO Frontec and Nunavut Petroleum Corporation, was awarded a five year contract renewal to lease and operate the 79 million litre bulk fuel storage facility, the pipeline distribution system, and the municipal fuel distribution system in Iqaluit, Nunavut.

On October 17, 2007, ATCO Frontec entered into a limited partnership with the Fort McKay First Nation to construct, own and operate a 500-room lodge in Fort McMurray, Alberta. The Creeburn Lake Lodge, which will be assembled primarily using modules built by ATCO Structures, is scheduled for completion in the second quarter of 2008, with full operations scheduled for the third quarter of 2008. The lodge has been designed to allow for future expansion to 1,000 rooms.

ATCO I-Tek

ATCO I-Tek is engaged in the development, operation and support of information systems and technologies.

ATCO I-Tek provides billing services, payment processing, credit, collection and call centre services to its clients. ATCO I-Tek currently provides such services to Direct Energy for its regulated retail and competitive energy supply businesses in Alberta. In addition, ATCO I-Tek also supplies distribution-related billing and customer care services to ATCO Gas and ATCO Electric. In 2007, ATCO I-Tek's call centre was named the top customer service provider in the North American energy sector by Service Quality Measurement Group Inc. for the second year in a row.

Direct Energy has entered into a 10 year contract effective May 4, 2004, with ATCO I-Tek to provide billing and call centre services to ensure continued quality customer service. Direct Energy has the ability to terminate this contract after the fifth anniversary upon immediate payment of termination fees which decline over the remaining term of the contract. Based upon current customer counts and service levels and a 10 year contract, revenues are estimated to be between $400-$500 million over the term of the contract.

Corporate and Other

Earnings for 2007 were $3.1 million, an **increase** of $14.8 million (126.5%) over 2006, including the impact of the adjustments identified in the Significant Non-Operating Financial Items section.

In 2007, **Adjusted Earnings** were $(5.6) million, an **increase** of $6.5 million (53.7%) over 2006. The primary reasons for the higher Adjusted Earnings in 2007 were lower share appreciation rights expense resulting from changes in Canadian Utilities Class A non-voting share and ATCO Class I Share prices since December 31, 2006, and increased income earned on cash balances due to higher short term interest rates.

Liquidity and Capital Resources

A major portion of the Company's operating income and funds generated by operations is generated from its Utility operations. Canadian Utilities and CU Inc., a wholly owned subsidiary of Canadian Utilities, use commercial paper borrowings and short term bank loans to provide flexibility in the timing and amounts of long term financing.

SUMMARY OF CASH FLOW	For the Year Ended December 31		
($ millions)	**2007**	2006	Change to 2007 (2007-2006)
Cash position, beginning of period	**798.8**	824.4	(3.1)%
Cash provided by (used in)			
Operating activities	**706.9**	617.9	14.4%
Investing activities	**(642.1)**	(527.5)	21.7%
Financing activities	**(98.8)**	(132.3)	25.3%
Foreign currency impact on cash balances	**(17.6)**	16.3	(208.0)%
Cash position, end of period	**747.2**	798.8	(6.5)%

OPERATING ACTIVITIES

Cash flow from operations increased by 14.4% in 2007, primarily due to increases in funds generated by operations. **Funds generated by operations** increased by 10.4% in 2007 primarily due to higher earnings and increased deferred availability incentives in Alberta Power (2000).

INVESTING ACTIVITIES

In 2007, cash used in **investing activities increased** 21.7% primarily due to higher capital expenditures in 2007, and changes in non-current deferred electricity costs. Capital expenditures increased by $133.1 million primarily due to:

- increased investment in regulated electric distribution and transmission and regulated natural gas distribution projects; and
- increased investment in ATCO Frontec projects.

CAPITAL EXPENDITURES	For the Year Ended December 31		
($ millions)	**2007**	2006	Change to 2007 (2007-2006)
Utilities	**588.9**	505.0	16.6%
Power Generation	**49.2**	48.1	2.3%
Global Enterprises	**62.7**	14.2	341.5%
Corporate and Other	**-**	0.4	(100.0)%
	700.8	567.7	23.4%

Capital expenditures to maintain capacity, meet planned growth, and fund future development activities are expected to be approximately $0.9 billion in 2008, an increase of 28.4% from 2007. The majority of these expenditures are uncommitted and relate primarily to the Utility operations. Capital expenditures for 2008 to 2010 are expected to be approximately $3.0 billion for the Utilities segment.

FINANCING ACTIVITIES

In 2007, the Company had **net debt increases** of $82.2 million. **Issuance** of debt included $220.0 million of 5.556% Debentures due October 2037, and $35.0 million of 4.883% Debentures due November 2012. **Redemptions** were comprised of $50.0 million of 4.801% Debentures due November 2007 and $122.8 million of non-recourse long term debt, including a one time payment of $52.7 million which represented the company's portion of proceeds from the TXU settlement applied to Barking Power's non-recourse long term debt.

On April 18, 2007, CU Inc., a subsidiary company, issued $115.0 million of Cumulative Redeemable Preferred Shares Series 1 at a price of $25.00 per share for cash. The dividend rate was fixed at 4.60%. The net proceeds of the issue were used in part to redeem, on May 18, 2007, $91.8 million of the outstanding Cumulative Redeemable Second Preferred Shares Series Q, R and S of ATCO Electric, ATCO Gas and ATCO Pipelines, subsidiaries of CU Inc., that were held by the Company. On May 18, 2007, the Company redeemed all of the $126.5 million outstanding Cumulative Redeemable Second Preferred Shares Series Q, R and S at a price of $25.00 per share plus accrued and unpaid dividends. These changes resulted in a net equity preferred share decrease of $11.5 million.

The dividend rate on the Perpetual Cumulative Second Preferred Shares Series V was reset to $1.18 (from 5.25% to 4.70%) for the period between October 3, 2007 and October 3, 2012.

Purchases of Canadian Utilities' Class A non-voting shares under normal course issuer bids amounted to $8.0 million and issues of Canadian Utilities' Class A non-voting shares due to stock option exercises amounted to $1.6 million for a net change of $6.4 million, a net decrease of $61.1 million from 2006.

On May 23, 2006, Canadian Utilities Limited commenced a **normal course issuer bid** for the purchase of up to 5% of the outstanding Class A shares. The bid expired on May 22, 2007. Over the life of the bid, 1,679,700 shares were purchased, all of which were purchased in 2006. On May 23, 2007, Canadian Utilities commenced a new normal course issuer bid for the purchase of up to 5% of the outstanding Class A shares. The bid will expire on May 22, 2008. From May 23, 2007, to February 15, 2008, 157,800 shares have been purchased, all of which were purchased in 2007.

Dividends paid to Class A and Class B share owners **decreased** 11.3% to $156.8 million due to the one-time special dividend paid in 2006. In the first quarter of 2007, the dividend was **increased** by $0.015 to $0.305 per share. For the second, third and fourth quarters the dividend was **increased** by $0.01 to $0.315 per share. The Company has increased its annual common share dividend each year since its inception as a holding company in 1972. At their meeting in the first quarter of 2008, the Board of Directors **increased** the quarterly dividend by $0.0175 to $0.3325. The payment of any dividend is at the discretion of the Board of Directors and depends on the financial condition of the Company and other factors.

On October 18, 2007, Standard and Poor's announced that it had upgraded its rating on Canadian Utilities' unsecured long term debt from A- to A.

FOREIGN CURRENCY TRANSLATION

Foreign currency translation negatively impacted the Company's cash position by $33.9 million as a result of changes in U.K. and Australian exchange rates used for balance sheet translations.

SHORT TERM INVESTMENT POLICY

It is the Company's policy to not invest any of its cash balances in asset-backed commercial paper.

LINES OF CREDIT

At December 31, 2007, the Company had the following credit lines that enable it to obtain funding for general corporate purposes.

($ millions)	Total	Used	Available
Long term committed	326.0	48.2	277.8
Short term committed	600.0	10.0	590.0
Uncommitted	74.1	12.9	61.2
Total	1,000.1	71.1	929.0

The amount and timing of future financings will depend on market conditions and the specific needs of the Company.

CONTRACTUAL OBLIGATIONS

Contractual obligations for the next five years and thereafter are as follows:

		Payments Due by Period			
($ millions)	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long term debt	2,603.2	100.0	254.5	182.0	2,066.7
Non-recourse long term debt	543.5	65.4	96.3	81.1	300.7
Operating leases	61.7	16.3	20.1	11.7	13.6
Purchase obligations:					
ATCO Gas natural gas purchase contracts (1)	3.5	0.5	1.0	1.0	1.0
Alberta Power (2000) coal purchase contracts (2)	554.6	49.3	101.7	107.3	296.3
ATCO Power natural gas fuel supply contracts (3)	183.5	49.8	98.2	30.2	5.3
Alberta Power (2000) and ATCO Power operating and maintenance agreements (4)	154.5	19.4	34.4	31.8	68.9
Capital expenditures (5)	84.4	84.4	-	-	-
Other	7.0	3.9	2.3	0.6	0.2
Total	4,195.9	389.0	608.5	445.7	2,752.7

Notes:

(1) ATCO Gas has ongoing obligations to purchase fixed quantities of natural gas from various gas producers at market prices that are in effect at the time the quantities are purchased. These obligations relate primarily to operational contracts pertaining to the Carbon natural gas storage facility, which continues to be subject to AUC regulation. Some of these obligations are for the life of the gas reserves. The estimated value of these purchase obligations is based on the market price of natural gas in effect on December 31, 2007, and assumes a remaining life of 10 years for the gas reserves commencing January 1, 2004. Direct Energy has agreed to purchase the natural gas purchased under these contracts at the prices paid by ATCO Gas.

(2) Alberta Power (2000) has fixed price long term contracts to purchase coal for its coal-fired generating plants. These costs are recoverable pursuant to the PPAs.

(3) ATCO Power has various contracts to purchase natural gas for certain of its natural gas-fired generating plants. ATCO Power has long term offtake agreements with the purchasers of the electricity to recover 78% of these costs. The balance of 22%, related to ATCO Power's Barking generating plant, is recovered through merchant sales in the U.K. electricity market. The ATCO Power and ATCO Resources merchant component of their generating plants in Alberta do not have any long term contracts to purchase natural gas.

(4) Alberta Power (2000) and ATCO Power have various contracts with suppliers to provide operating and maintenance services at certain of their generating plants.

(5) Various contracts to purchase goods and services with respect to capital expenditure programs.

CURRENT AND LONG TERM FUTURE INCOME TAX LIABILITY

Current and long term future income tax liabilities of $155.5 million at December 31, 2007, are attributable to differences between the financial statement carrying amounts of assets and liabilities and their tax bases. These differences result primarily from recognizing revenue and expenses in different years for financial and tax reporting purposes. Future income taxes will become payable when such differences are reversed through the settlement of liabilities and realization of assets.

BASE SHELF PROSPECTUS

On April 12, 2006, CU Inc. filed a **base shelf prospectus** which permits CU Inc. to issue up to an aggregate of $850.0 million of debentures over the twenty-five month life of the prospectus. As at December 31, 2007 the following debentures had been issued:

- on November 20, 2006, CU Inc. issued $160.0 million of 4.801% Debentures due November 22, 2021, at a price of 100 to yield 4.801% and $160.0 million of 5.032% Debentures due November 20, 2036, at a price of 100 to yield 5.032%. The proceeds of these two issues were advanced to ATCO Electric, ATCO Gas and ATCO Pipelines for use in funding capital expenditures, repay indebtedness and for other general corporate purposes.
- on November 1, 2007, CU Inc. issued $220.0 million of 5.556% Debentures due October 30, 2037, at a price of 100 to yield 5.556%. The proceeds of this issue were advanced to ATCO Electric, ATCO Gas and ATCO Pipelines for use in funding capital expenditures, repay indebtedness and for other general corporate purposes.
- on November 1, 2007, CU Inc. issued $35.0 million of 4.883% Debentures due November 1, 2012, at a price of 100 to yield 4.883%. The proceeds of this issue were advanced to Alberta Power (2000) for use in funding capital expenditures, repay indebtedness and for other general corporate purposes.

Share Capital

The equity securities of the Company consist of Class A shares and Class B shares.

At February 15, 2008, the Company had outstanding 81,555,386 Class A shares, 43,739,284 Class B shares, and options to purchase 1,304,200 Class A shares.

CLASS A NON-VOTING SHARES AND CLASS B VOTING SHARES

The owners of the Class A shares and the Class B shares are entitled to share equally, on a share for share basis, in all dividends declared by the Company on either of such classes of shares as well as the remaining property of the Company upon dissolution. The owners of the Class B shares are entitled to vote and to exchange at any time each share held for one Class A share.

If a take-over bid is made for the Class B shares which would result in the offeror owning more than 50% of the outstanding Class B shares and which would constitute a change in control of the Company, owners of Class A shares are entitled, for the duration of the bid, to exchange their Class A shares for Class B shares and to tender such Class B shares pursuant to the terms of the take-over bid. Such right of exchange is conditional upon the completion of the take-over bid giving rise to the right of exchange, and if the take-over bid is not completed, then the right of exchange shall be deemed never to have existed. In addition, owners of the Class A shares are entitled to exchange their shares for Class B shares of the Company if ATCO Ltd., the present controlling share owner of the Company, ceases to own or control, directly or indirectly, more than 10,000,000 of the issued and outstanding Class B shares of the Company. In either case, each Class A share is exchangeable for one Class B share, subject to changes in the exchange ratio for certain events such as a stock split or rights offering.

Of the 6,400,000 Class A non-voting shares authorized for grant in respect of options under Canadian Utilities Limited's stock option plan, 3,122,200 Class A non-voting shares are available for issuance at December 31, 2007. Options may be granted to directors, officers and key employees of Canadian Utilities Limited and its subsidiaries at an exercise price equal to the weighted average of the trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant. As of February 15, 2008, options to purchase 1,304,200 Class A shares were outstanding.

Business Risks

ENVIRONMENTAL MATTERS

Canadian Utilities' operating subsidiaries and the industries in which they operate are subject to extensive federal, provincial and local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters, land use activities and the handling, manufacturing, processing, use, emission and disposal of materials and waste products.

On April 26, 2007, the federal government released a plan that proposes mandatory GHG emission targets on industry. The proposed plan requires an initial reduction in 2010 of 18% from 2006 levels followed thereafter by annual reductions of an additional 2%. New facilities (2004 or later) are allowed a 3-year grace period after which they must improve emission intensity by 2% per year below the clean fuel standard. Compliance may be achieved by reduction or capture, limited investment in a technology fund, emission credit trading, purchase of offset credits, *Kyoto Protocol Clean Development Mechanisms* (maximum 10%) and very limited opportunity for early action credits. Specific details on the regulations have yet to be released and will be required to assess the financial impact of the federal framework. It is anticipated that the PPAs will allow the Company to recover most of the costs associated with complying with the new regulations.

On April 20, 2007 and June 27, 2007, respectively, the Government of Alberta approved Bill 3, Climate Change and Emissions Management Amendment Act and the Specified Gas Emitters Regulation Amendment that requires Alberta facilities that emit 100,000 tonnes or more of GHG to reduce facility emission intensities by 12% starting July 1, 2007. Units commissioned before January 1, 2000, or that have less than nine years of commercial operation are required to reduce their emission intensity by 2% per year starting in the fourth year of commercial operation to a maximum of 12% in the ninth year of commercial operation. Cogeneration units with emissions less than a deemed emission target based on a stand-alone natural gas combined cycle unit and conventional boiler will be eligible for credits. It is anticipated that the PPAs will allow the Company to recover most of the costs associated with complying with the new regulations.

The Alberta government implemented a mercury emission regulation in March 2006. The regulation requires coal-fired plant operators, including Alberta Power (2000), to monitor mercury emissions and capture at least 70% of the mercury in the coal starting January 1, 2011. It is anticipated that the PPAs will allow the Company to recover most of the costs associated with complying with the new regulation.

REGULATED OPERATIONS

Regulated operations are conducted by Canadian Utilities' wholly owned subsidiary CU Inc., which in turn has the following subsidiaries: ATCO Electric and its subsidiaries, ATCO Gas, ATCO Pipelines, and CU Water. Alberta Power (2000)'s two largest generating plants are also considered regulated operations because they are governed by legislatively mandated PPAs, approved by the AUC.

ATCO Electric, ATCO Gas, ATCO Pipelines and CU Water are regulated primarily by the AUC, which administers acts and regulations covering such matters as rates, financing, accounting, construction, operation and service area. The AUC may approve interim rates or approve the recovery of costs, including capital and operating costs, on a placeholder basis, subject to final determination. These subsidiaries are subject to the normal risks faced by companies that are regulated. These risks include the approval by the AUC of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing service, including a fair return on rate base. In addition, these risks include the disallowance by the AUC, of costs incurred. The Company's ability

to recover the actual costs of providing service and to earn the approved rates of return depends on achieving the forecasts established in the rate-setting process.

Carbon Natural Gas Storage Facility

ATCO Gas leases the entire storage capacity of the Carbon natural gas storage facility to ATCO Midstream at AUC approved placeholder rates. On February 5, 2007, the AUC issued a decision to ATCO Gas that leaves in question these placeholder rates and the effect that these placeholder rates will have on future ATCO Gas revenues.

Temperatures

Temperature fluctuations have a significant impact on throughput in ATCO Gas. As approximately 50% of ATCO Gas' delivery charge is recovered based on throughput, ATCO Gas' revenues and earnings are sensitive to temperature. Temperatures that are 10% warmer or colder than normal temperatures impact ATCO Gas' annual earnings by approximately $9.7 million.

As part of its 2008 and 2009 general rate application filed with the AUC in November 2007, ATCO Gas is seeking approval from the AUC to set up a deferral account mechanism which would, if approved, eliminate the impact of temperature on ATCO Gas' earnings.

Benchmarking

ATCO Electric, ATCO Gas, and ATCO Pipelines purchase information technology services from ATCO I-Tek. ATCO Electric and ATCO Gas also purchase customer care and billing services from ATCO I-Tek. The recovery of these costs in customer rates is subject to AUC approval. Since 2003, the costs have been approved on a placeholder basis, and are subject to final AUC approval after completion of a collaborative benchmarking process. A benchmarking report was received on January 23, 2008, and an application is anticipated to be made to the AUC by the end of February 2008 to finalize the placeholder costs. An AUC decision is expected before the end of the second quarter of 2008.

Transfer of the Retail Energy Supply Businesses

On May 4, 2004, ATCO Gas and ATCO Electric transferred their retail energy supply businesses to Direct Energy and one of its affiliates (collectively Direct Energy), a subsidiary of Centrica plc. ATCO Gas and ATCO Electric continue to own and operate the natural gas and electricity distribution systems used to deliver energy.

Although ATCO Gas and ATCO Electric transferred to Direct Energy certain retail functions, including the supply of natural gas and electricity to customers and billing and customer care functions, the legal obligations of ATCO Gas and ATCO Electric remain if Direct Energy fails to perform. In certain events (including where Direct Energy fails to supply natural gas and/or electricity and ATCO Gas and/or ATCO Electric are ordered by the AUC to do so), the functions will revert to ATCO Gas and/or ATCO Electric with no refund of the transfer proceeds to Direct Energy by ATCO Gas and/or ATCO Electric.

Centrica plc, Direct Energy's parent, has provided a $300 million guarantee, supported by a $235 million letter of credit in respect of Direct Energy's obligations to ATCO Gas, ATCO Electric and ATCO I-Tek in respect of the ongoing relationships contemplated under the transaction agreements. However, there can be no assurance that the coverage under these agreements will be adequate to cover all of the costs that could arise in the event of a reversion of such functions.

Canadian Utilities has provided a guarantee of ATCO Gas', ATCO Electric's and ATCO I-Tek's payment and indemnity obligations to Direct Energy contemplated under the transaction agreements.

Late Payment Penalties on Utility Bills

As a result of decisions of the Supreme Court of Canada in Garland vs. Consumers' Gas Co., the imposition of late payment penalties on utility bills has been called into question. ATCO is unable to determine at this time the impact, if any, that these decisions will have on the Company.

Measurement Inaccuracies in Metering Facilities

Measurement inaccuracies occur from time to time with respect to ATCO Electric's, ATCO Gas' and ATCO Pipelines' metering facilities. Measurement adjustments are settled between the parties based on the requirements of the Electricity and Gas Inspections Act (Canada) and applicable regulations issued pursuant thereto. There is a risk of disallowance of the recovery of a measurement adjustment if controls and timely follow up are found to be inadequate by the AUC.

An AUC decision applicable to ATCO Gas established a two-year adjustment limitation period for inaccuracies in gas supply costs, including measurement inaccuracies in metering facilities. The AUC stated that it will consider specific applications for adjustments beyond the two-year limitation period.

Alberta Power (2000)

Alberta Power (2000) has two regulated operations, the Battle River and Sheerness generating plants, which were regulated by the AUC until December 31, 2000, but are now governed by legislatively mandated PPAs that were approved by the AUC. These plants are included in regulated operations primarily because the PPAs are designed to allow the owners of generating plants constructed before January 1, 1996, to recover their forecast fixed and variable costs and to earn a return at the rate specified in the PPAs. The plants will become deregulated upon the earlier of one year after the expiry of a PPA or a decision to continue to operate the plant. For PPAs expiring prior to 2019, Alberta Power (2000) has one year after the expiry of a PPA to determine whether to decommission the generating plant in order to fully recover plant decommissioning costs or to continue to operate the plant. For PPAs expiring after 2018 decommissioning costs are the responsibility of the plant owner. Each PPA is to remain in effect until the earlier of the last day of the estimated life of the related generating plant or December 31, 2020.

Over 99% of the electricity generated by Alberta Power (2000) is sold pursuant to PPAs. Under the PPAs, Alberta Power (2000) is required to make the generating capacity for each generating unit available to the purchaser of the PPA for that unit. In return, Alberta Power (2000) is entitled to recover its forecast fixed and variable costs for that unit from the PPA purchaser, including a return on common equity equal to the long term Government of Canada bond rate plus 4.5% based on a deemed common equity ratio of 45%. Many of the forecast costs will be determined by indices, formulae or other means for the entire period of the PPA. Alberta Power (2000)'s actual results will vary and depend on performance compared to the forecasts on which the PPAs were based.

Fuel costs in Alberta Power (2000) are mostly for coal supply. To protect against volatility in coal prices, Alberta Power (2000) owns or has sufficient coal supplies under long term contracts for the anticipated lives of its Battle River and Sheerness coal-fired generating plants. These contracts are at prices that are either fixed or indexed to inflation.

NON-REGULATED OPERATIONS

ATCO Power

The Company's portfolio of non-regulated electric generating plants is made up of gas-fired cogeneration, gas-fired combined cycle, gas-fired simple cycle, and small hydro plants. The majority of operating income from power generation operations is derived through long term power, steam and transmission support agreements. Where long term agreements are in place, the purchaser assumes the fuel supply and price risks and the Company, under these agreements, assumes the operating risks.

ATCO Power's generating plants include high efficiency gas-fired cogeneration plants, with associated on-site steam and power tolling arrangements, and gas-fired peaking and hydroelectric plants with underlying transmission support agreements. In 2007, sales from approximately 71% of ATCO Power's and ATCO Resources Ltd's, (a wholly owned subsidiary of ATCO Ltd.), generating capacity were subject to long term agreements, while the remaining 29% consisted primarily of sales to the Alberta Power Pool and the U.K. merchant power market. In 2008, these percentages are expected to be approximately the same. These sales are dependent on prices in the Alberta electricity spot market and in the U.K. merchant power market. The majority of the electricity sales to the Alberta Power Pool are from gas-fired generating plants, and as a result operating income is affected by natural gas prices. During peak electricity usage hours in Alberta, a good correlation exists between electricity spot prices and natural gas spot prices. During off-peak hours, there is less correlation. The correlation is expected to increase in the future as customer load grows and older plants are decommissioned.

Changes and volatility in Alberta Power Pool electricity prices, natural gas prices and related Spark spreads may have a significant impact on the Company's earnings and cash flow from operations in the future. The Company has adopted asset optimization strategies for bidding its merchant power into the Alberta and U.K. power markets.

Since October 2004, the output from ATCO Power's Barking generating plant previously sold to TXU Europe has been sold into the U.K. power exchange market. In the U.K., electricity generators, on average, sell over 90% of their output to electricity suppliers in bilateral contracts, with the remaining output sold via various power pool mechanisms. Approximately 40% of the electricity generated is supplied from natural gas-fired generating plants. The Barking generating plant has a long term, fixed price gas purchase agreement and, as a result, has been able to experience increased margins due to the high market prices for electricity. Changes in the U.K. market electricity prices may have an impact on the Company's earnings and cash flow from operations in the future.

ATCO Power and ATCO Resources have financed their non-regulated electrical generating capacity on a non-recourse basis. In these projects, the lender's recourse in the event of default is limited to the business and assets of the project in question, which includes the Company's equity therein. Canadian Utilities has provided a number of guarantees related to ATCO Power's and ATCO Resources' obligations under their respective non-recourse loans associated with certain of their projects. ATCO Power (80%) and ATCO Resources (20%) have a joint venture in these projects subject to guarantees, excluding Barking Power. ATCO Ltd. has indemnified and agreed to reimburse Canadian Utilities for any amounts it may be required to pay under these guarantees in respect of ATCO Resources' 20% interest. The guarantees outstanding at December 31, 2007, are described in Note 12 to the consolidated financial statements. To date, Canadian Utilities has not been required to make any payments related to its guaranteed obligations.

The Company's generating plants are exposed to operational risks which may cause outages due to such issues as boiler and turbine failures. In order to mitigate this risk, a proactive maintenance program is carried out on a regular basis with scheduled outages for major overhauls and other maintenance issues. In addition, the Company carries property and business interruption insurance to protect against the risk of extended outages.

ATCO Midstream

ATCO Midstream is exposed to the difference between the selling prices of the NGL produced and the purchase price of shrinkage gas. The amount of profit made from ATCO Midstream's NGL extraction operations will increase or decrease as the difference between the price of NGL and natural gas commodities increases or decreases.

ATCO Midstream is exposed to seasonal natural gas price spreads. The amount of earnings and cash flow from the storage business will vary as the differences between the price of natural gas in the summer and the following winter fluctuates. To mitigate this risk ATCO Midstream maintains portfolios of varied contracts, delivery terms, capacities and customers for the storage operations.

In June 2007, the AUC initiated an industry wide review of NGL extraction rights as the existing industry agreement expires in 2008. The process is ongoing and is expected to be completed in 2008. The impact to ATCO Midstream's earnings and cash flow from operations is uncertain at this time.

ATCO Frontec

ATCO Frontec's operations include providing support to military agencies in foreign locations which may be subject to military risk. ATCO Frontec maintains insurance to mitigate the risk associated with the nature of these contracts. Additionally, in areas where the risk of injury is considered to be severe, ATCO Frontec confines its staff to specific military compounds and all employees are given pre-deployment orientation and ongoing safety training.

A fuel spill occurred in January 2007 at the Brevoort Island, Northwest Territories, radar site maintained by Nasittuq Corporation, a corporation jointly owned by ATCO Frontec and Pan Arctic Inuit Logistics Corporation. ATCO believes that it has sufficient insurance coverage in place to cover any material amounts that might become payable as a result of the fuel spill. Accordingly, this spill is not expected to have any material impact on Canadian Utilities' financial position.

ATCO I-Tek

ATCO Electric, ATCO Gas, and ATCO Pipelines purchase information technology services from ATCO I-Tek. ATCO Electric and ATCO Gas also purchase customer care and billing services from ATCO I-Tek. The recovery of these costs in customer rates is subject to AUC approval. Since 2003, the costs have been approved on a placeholder basis, and are subject to final AUC approval after completion of a collaborative benchmarking process. A benchmarking report was received on January 23, 2008.

Adjustments to ATCO I-Tek's fees as a result of the benchmarking report for information technology services will be retroactive to January 1, 2008. Price changes relating to ATCO I-Tek's customer care and billing contract services for ATCO Gas and ATCO Electric will be applied following renegotiation of a new fee schedule. The final impact of the benchmarking report may result in reduced revenues for ATCO I-Tek in 2008 and beyond for services provided to ATCO Electric, ATCO Gas, and ATCO Pipelines.

Derivative Financial Instruments

In conducting its business, the Company uses various instruments, including forward contracts, swaps and options, to manage the risks arising from fluctuations in exchange rates, interest rates and commodity prices. All such instruments are used only to manage risk and not for trading purposes. For details on the financial instruments in place at December 31, 2007, see Note 21 to the consolidated financial statements.

The Canadian Institute of Chartered Accountants (CICA) recommendations require the recognition and measurement of derivative instruments embedded in host contracts that were issued, acquired or substantively modified on or after January 1, 2003. Derivative instruments embedded in host contracts that were issued, acquired or substantively modified prior to January 1, 2003 have not been identified and recognized in the consolidated financial statements as permitted by the recommendations.

The Company designates each derivative instrument as either a hedging instrument or a non-hedge derivative:

(a) A hedging instrument is designated as either:
  - (i) a fair value hedge of a recognized asset or liability or,
  - (ii) a cash flow hedge of either:
    - a specific firm commitment or anticipated transaction or,
    - the variable future cash flows arising from a recognized asset or liability.

  At inception of a hedge, the Company documents the relationship between the hedging instrument and the hedged item, including the method of assessing retrospective and prospective hedge effectiveness. At the end of each period, the Company assesses whether the hedging instrument has been highly effective in offsetting changes in fair values or cash flows of the hedged item and measures the amount of any hedge ineffectiveness. The Company also assesses whether the hedging instrument is expected to be highly effective in the future.

A hedging instrument is recorded on the consolidated balance sheet at fair value. Payments or receipts on a hedging instrument that is determined to be highly effective as a hedge are recognized concurrently with, and in the same financial category as, the hedged item. Subsequent changes in the fair value of a fair value hedge are recognized in earnings concurrently with the hedged item. For a cash flow hedge, the effective portion of changes in fair value is recognized in other comprehensive income and is subsequently transferred to earnings concurrently with the hedged item, whereas the portion of the changes in fair value that is not effective at offsetting the hedged exposure is recognized in earnings.

If a hedging instrument ceases to be highly effective as a hedge, is de-designated as a hedging instrument or is settled prior to maturity, then the Company ceases hedge accounting prospectively for that instrument; for a cash flow hedge, the gain or loss deferred to that date remains in accumulated other comprehensive income and is transferred to earnings concurrently with the hedged item. Subsequent changes in the fair value of that derivative instrument are recognized in earnings.

If the hedged item is sold, extinguished or matures prior to the termination of the related hedging instrument, or if it is probable that an anticipated transaction will not occur in the originally specified time frame, then the gain or loss deferred to that date for the related hedging instrument is immediately transferred from accumulated other comprehensive income to earnings.

Hedge gains or losses that were recognized in other comprehensive income are added to the initial carrying amount of a non-financial asset or non-financial liability when:
(i) an anticipated transaction for a non-financial asset or non-financial liability becomes a specific firm commitment for which fair value hedge accounting is applied or,
(ii) a cash flow hedge of an anticipated transaction subsequently results in the recognition of the non-financial asset or non-financial liability.

(b) A non-hedge derivative instrument is recorded on the consolidated balance sheet at fair value and subsequent changes in fair value are recorded in earnings.

The Company applies settlement date accounting to the purchases and sales of financial assets. Settlement date accounting implies the recognition of an asset on the day it is received by the Company and the recognition of the disposal of an asset on the day that it is delivered by the Company. Any gain or loss on disposal is also recognized on that day.

Transaction costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities that are not held for trading are added to the fair value of such assets or liabilities at time of initial recognition.

Transactions with Related Parties

The Company's transactions with related parties are in the normal course of business and under normal commercial terms. For a description of these transactions, see Note 19 to the consolidated financial statements.

Off-Balance Sheet Arrangements

At December 31, 2007, unrecorded future income tax liabilities of the regulated operations amounted to $159.4 million and unrecorded future income tax assets of other operations amounted to $0.8 million. The liabilities include $4.7 million in respect of Alberta Power (2000)'s generating plants, which will be recovered through future payments received in respect of the PPA's. There are tax loss carryforwards of $0.4 million for Canadian subsidiary companies and $4.6 million for a foreign subsidiary company for which no tax benefit has been recorded. The losses for the Canadian subsidiary companies begin to expire in 2010, and the losses for the foreign subsidiary company does not expire. For additional information on the Company's unrecorded future income tax liabilities (refer to Note 6 to the consolidated financial statements).

Other than the financial instruments discussed under the Derivative Financial Instruments section, the Company does not have any off-balance sheet arrangements that have, or are likely to have, a current or future effect on the results of operations or financial condition, including, without limitation, such considerations as liquidity and capital resources.

Contingencies

The Company is party to a number of disputes and lawsuits in the normal course of business. The Company believes that the ultimate liability arising from these matters will have no material impact on the consolidated financial statements.

Critical Accounting Estimates

The preparation of the Company's consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. On an on-going basis, management reviews its estimates, particularly those related to depreciation and amortization methods, useful lives and impairment of long-lived assets, amortization of deferred availability incentives, asset retirement obligations, employee future benefits and the fair values of financial instruments, using currently available information. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates. The Company's critical accounting estimates are discussed below.

DEFERRED AVAILABILITY INCENTIVES

Alberta Power (2000) is subject to an incentive/penalty regime related to generating unit availability. The amount to be amortized is dependent upon estimates of future generating unit availability and future electricity prices over the term of the PPAs. Each quarter, management uses these estimates to forecast high case, low case and most likely scenarios for the incentives to be received from, less penalties to be paid to, the PPA counterparties. These forecasts are added to the accumulated unamortized deferred availability incentives outstanding at the end of the quarter; the resulting total is divided by the remaining term of the PPA to arrive at the amortization for the quarter. As at December 31, 2007, the Company had recorded $41.8 million of deferred availability incentives. The amortization of deferred availability incentives recorded in revenues amounted to $11.8 million in 2007.

Compared to the most likely scenario recorded in revenues for the year, the high case scenario would have resulted in higher revenues of approximately $5.3 million, whereas the low case scenario would have resulted in lower revenues of approximately $5.3 million.

EMPLOYEE FUTURE BENEFITS

The expected long term rate of return on pension plan assets is determined at the beginning of the year on the basis of the long bond yield rate plus an equity and management premium that reflects the plan asset mix. Actual balanced fund performance over a longer period suggests that this premium is about 1.5%, which, when added to the long bond yield rate of 5.1% at the beginning of 2007, resulted in an expected long term rate of return of 6.6% for 2007. This methodology is supported by actuarial guidance on long term asset return assumptions for the Company's defined benefit pension plans, taking into account asset class returns, normal equity risk premiums, and asset diversification effect on portfolio returns.

Expected return on plan assets for the year is calculated by applying the expected long term rate of return to the market related value of plan assets, which is the average of the market value of plan assets at the end of the preceding three years. The expected long term rate of return has declined over the past six years, from 8.1% in 2001 to 6.6% in the year ended December 31, 2007. The result has been a decrease in the expected return on plan assets and a corresponding increase in the cost of pension benefits. In addition, the actual return on plan assets over the same period has been lower than expected (i.e., an experience loss), which is also contributing to an increase in the cost of pension benefits as losses are amortized to earnings.

The liability discount rate that is used to calculate the cost of benefit obligations reflects market interest rates on high quality corporate bonds that match the timing and amount of expected benefit payments. The liability discount rate has also declined over the same period, from 6.9% at the end of 2001 to 5.5% at the end of 2007. The result has been an increase in benefit obligations (i.e., an experience loss), which is contributing to an increase in the cost of pension benefits as losses are amortized to earnings.

In accordance with the Company's accounting policy to amortize cumulative experience gains and losses in excess of 10% of the greater of the accrued benefit obligations or the market value of plan assets, the Company began amortizing a portion of the net cumulative experience losses on plan assets and accrued benefit obligations in 2003 for both pension benefit plans and other post employment benefit plans and continued this amortization in 2007.

The assumed annual health care cost trend rate increases used in measuring the accumulated post employment benefit obligations in the year ended December 31, 2007, are as follows: for drug costs, 7.8% starting in 2007 grading down over six years to 4.5%, and for other medical and dental costs, 4.0% for 2007 and thereafter. Combined with lower recent claims experience, the effect of these changes has been to decrease the costs of other post employment benefits.

The effect of changes in these estimates and assumptions is mitigated by an AUC decision to record the costs of employee future benefits when paid rather than accrued. Therefore, a significant portion of the benefit plans expense or income is unrecognized by the regulated operations, excluding Alberta Power (2000).

The sensitivities of key assumptions used in measuring accrued benefit obligations and benefit plan cost (income) for 2007 are outlined in the following table. The sensitivities of each key assumption have been calculated independently of changes in other key assumptions. Actual experience may result in changes in a number of assumptions simultaneously.

	2007 Pension Benefit Plans		**2007 Other Post Employment Benefit Plans**	
($ millions)	**Accrued Benefit Obligation**	**Benefit Plan Cost**	**Accrued Benefit Obligation**	**Benefit Plan Cost**
Expected long term rate of return on plan assets				
1% increase [1]	-	(4.0)	-	-
1% decrease [1]	-	4.0	-	-
Liability discount rate				
1% increase [1]	(82.3)	(5.6)	(3.7)	(0.3)
1% decrease [1]	104.9	8.4	4.6	0.4
Future compensation rate				
1% increase [1]	21.9	3.0	-	-
1% decrease [1]	(20.1)	(2.8)	-	-
Long term inflation rate				
1% increase [1][2][3]	36.5	4.5	3.9	0.6
1% decrease [1][3]	(63.8)	(7.7)	(3.1)	(0.4)

Notes:

(1) Sensitivities are net of the associated regulatory asset (liability) and unrecognized defined benefit plans cost, which reflect an AUC decision to record costs of employee future benefits in the regulated operations, excluding Alberta Power (2000), when paid rather than accrued.

(2) The long term inflation rate for pension plans reflects the fact that pension plan benefit payments are indexed to increases in the Canadian Consumer Price Index to a maximum increase of 3.0% per annum.

(3) The long term inflation rate for other post employment benefit plans is the assumed annual health care cost trend rate described in the weighted average assumptions.

Changes in Accounting Policies

Effective January 1, 2007, the Company adopted the CICA recommendations pertaining to financial instruments, which establish standards for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. These recommendations require that fair value be used to measure financial assets that are held for trading or available for sale, financial liabilities that are held for trading and all derivative financial instruments. Other financial assets, such as loans and receivables and investments that are held to maturity, and other financial liabilities are measured at their amortized cost. This change in accounting had the following effect on the consolidated financial statements for the three months and year ended December 31, 2007:

- Recognition of interest rate swaps, foreign currency forward contracts and certain natural gas purchase contracts as derivative assets and liabilities in the consolidated financial statements (see Note 21 to the consolidated financial statements).
- Recognition of the fair value of a power generation revenue contract liability associated with the natural gas purchase contracts derivative asset (see Note 21 to the consolidated financial statements).
- Recognition of a Mark-to-Market Adjustment for the change in fair value of the natural gas purchase contracts derivative asset and recognition of an adjustment to the associated power generation revenue contract liability (see Note 5 to the consolidated financial statements).
- Restatement of opening retained earnings at January 1, 2007 to recognize the prior years' earnings effect of the natural gas purchase contracts derivative asset and the associated power generation revenue contract liability, as well as the prior years' earnings effect of accounting for certain financial assets and financial liabilities at amortized cost using the effective interest method (see Note 7 to the consolidated financial statements).
- Reclassification of deferred financing charges from other assets to long term debt and non-recourse long term debt (see Note 12 to the consolidated financial statements).

Effective January 1, 2007, the Company adopted the CICA recommendations pertaining to hedges, which establish standards for the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. The purpose of hedge accounting is to ensure that gains, losses, revenues and expenses from effective hedging relationships are recorded in earnings in the same period. This change in accounting had no effect on the consolidated financial statements for the three months and year ended December 31, 2007.

Effective January 1, 2007, the Company adopted the CICA recommendations regarding the reporting and disclosure of comprehensive income. Comprehensive income consists of changes in the equity of the Company from sources other than the Company's share owners, and includes earnings of the Company, the foreign currency translation adjustment relating to self-sustaining foreign operations and unrealized gains and losses on changes in fair values of available-for-sale assets and effective cash flow hedging instruments. Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income but are excluded from earnings of the period. Comprehensive income is disclosed in a separate statement in the consolidated financial statements.

Effective January 1, 2007, the Company adopted the CICA recommendations regarding the presentation of equity and changes in equity. These recommendations require separate presentation of the components of equity, including retained earnings, accumulated other comprehensive income, contributed surplus, share capital and reserves, and the changes therein. As a result of this change in accounting, the Company has included a reconciliation of accumulated other comprehensive income in the notes to the consolidated financial statements (see Note 22 to the consolidated financial statements). In accordance with the recommendations, comparative figures have been adjusted to incorporate the foreign currency translation adjustment into accumulated other comprehensive income.

Effective January 1, 2007, the Company adopted the CICA recommendations that prescribe the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. Adoption of these recommendations had no effect on the consolidated financial statements for the three months and year ended December 31, 2007, except for the disclosure of accounting changes that have been issued by the CICA but have not yet been adopted by the Company because they are not effective until a future date (see Future Accounting Changes section).

FUTURE ACCOUNTING CHANGES

The CICA has issued new accounting recommendations for capital disclosures which require disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital. These recommendations are effective for the Company beginning January 1, 2008. This recommendation requires additional disclosure in the notes to the financial statements.

The CICA has issued new accounting recommendations for disclosure and presentation of financial instruments which require disclosures of both qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of risks arising from financial instruments to which the Company is exposed. These recommendations are effective for the Company beginning January 1, 2008. This recommendation requires additional disclosure in the notes to the financial statements.

The CICA has issued new accounting recommendations for measurement and disclosure of inventories which provide guidance on the determination of cost and its subsequent recognition as an expense, including any writedown to net realizable value, and on the cost formulas that are used to assign costs to inventories. The adoption of these recommendations is not expected to have a material impact on the earnings or assets of the Company. These recommendations are effective for the Company beginning January 1, 2008.

The CICA has removed a temporary exemption in its accounting recommendations that permitted assets and liabilities arising from rate regulation to be recognized and measured on a basis other than in accordance with the primary sources of GAAP. The Company is evaluating the possibility of using standards issued by the Financial Accounting Standards Board in the United States that allow for the recognition and measurement of rate regulated assets and liabilities as another source of GAAP. At this time the Company is unable to determine the effect that this decision will have on earnings or assets and liabilities of the Company. The CICA has also issued new recommendations pertaining to regulated income taxes to require the recognition of future regulated income tax assets and liabilities as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to future customers. These recommendations are effective for the Company beginning January 1, 2009, and will be applied prospectively. This recommendation requires additional disclosure in the notes to the financial statements; however, the company believes that there will be no material impact on its earnings.

In 2006, the CICA announced that accounting standards in Canada are to converge with International Financial Reporting Standards ("IFRS"). The Company will need to begin reporting under IFRS in the first quarter of 2011 with comparative data for the prior year. IFRS uses a conceptual framework similar to GAAP, but there are significant differences on recognition, measurement and disclosures that will need to be addressed. The Company is currently assessing the impact of these standards on its financial statements.

Quarterly Results of Operations

SELECTED INFORMATION

($ millions except per share data)	For the Three Months Ended Mar 31	Jun 30	Sep 30	Dec 31	Total
	(unaudited)				
2007 (1) (2) (3)					
Revenues	697.6	560.3	489.9	657.1	2,404.9
Earnings attributable to Class A and Class B shares	134.7	81.1	72.2	98.7	386.7
Earnings per Class A and Class B share	1.07	0.65	0.58	0.78	3.08
Diluted earnings per Class A and Class B share	1.07	0.64	0.58	0.78	3.07
Adjusted Earnings (4)	130.2	67.5	70.6	75.5	343.8
Adjusted Earnings per Class A and Class B share (4)	1.04	0.54	0.56	0.60	2.74
2006 (1) (2) (3)					
Revenues	642.0	563.4	553.9	671.1	2,430.4
Earnings attributable to Class A and Class B shares	86.9	70.2	66.8	100.0	323.9
Earnings per Class A and Class B share	0.68	0.56	0.53	0.80	2.57
Diluted earnings per Class A and Class B share	0.68	0.55	0.53	0.80	2.56
Adjusted Earnings (4)	86.9	66.4	67.5	100.0	320.8
Adjusted Earnings per Class A and Class B share (4)	0.68	0.52	0.54	0.80	2.54

Notes:

(1) There were no discontinued operations or extraordinary items during these periods.

(2) Due to the seasonal nature of the Company's operations, changes in electricity prices in Alberta, the timing and demand of natural gas storage capacity sold, changes in natural gas storage fees and the timing of rate decisions, revenues, earnings and Adjusted Earnings for any quarter are not necessarily indicative of operations on an annual basis.

(3) The above data (other than Adjusted Earnings and Adjusted Earnings per Class A and Class B share) has been extracted from the financial statements, which have been prepared in accordance with GAAP and the reporting currency is the Canadian dollar.

(4) Refer to Significant Non-Operating Financial Items section for a description of adjustments made to earnings attributable to Class A and Class B shares to obtain Adjusted Earnings.

The principal factors that caused variations in **financial condition** and **results of operations** over the past eight quarters were:

- unplanned outage in ATCO Power's Barking generating plant in the fourth quarter of 2007 resulting in a $8.6 million reduction in earnings compared to the same period in 2006;
- the timing of utility rate decisions;
- amount of franchise fees collected by ATCO Gas on behalf of cities and municipalities;
- availability of power generating plants in ATCO Power and Alberta Power (2000);
- TXU Europe Energy Trading Limited (TXU Europe settlement);
- fluctuations in temperatures, natural gas prices, electricity prices and related Spark spreads in Alberta and the U.K.;
- changes in market conditions in ATCO Midstream's NGL and storage operations;
- changes in business activity in ATCO Frontec;
- exchange rates;
- H.R. Milner Income Tax Reassessment in Alberta Power (2000) in 2006;
- 2006 and 2007 Changes in Income Taxes and Rates;
- 2007 Changes in the Taxation of Preferred Share Dividends;
- ATCO Gas Tax Reassessments; and
- changes in share appreciation rights expense due to changes in Canadian Utilities Class A non-voting share and ATCO Ltd. Class I Share prices.

Fourth Quarter 2007

All quarterly information in this document is unaudited and has been shaded to differentiate it from the annual information.

SEGMENTED REVENUE	For the Three Months Ended December 31		
($ millions)	**2007**	2006	Change to 2007 (2007-2006)
		(unaudited)	
Utilities	**313.3**	314.7	(0.4)%
Power Generation	**193.9**	226.7	(14.5)%
Global Enterprises	**198.2**	173.9	14.0%
Corporate and Other	**3.5**	3.3	6.1%
Intersegment eliminations	**(51.8)**	(47.5)	9.1%
Revenues	**657.1**	671.1	(2.1)%

Notes:

(1) There were no discontinued operations or extraordinary items during these periods.

(2) Due to the seasonal nature of the Company's operations, changes in electricity prices in Alberta, the timing and demand of natural gas storage capacity sold, changes in natural gas storage fees and the timing of rate decisions, revenues for any quarter are not necessarily indicative of operations on an annual basis.

(3) The above data has been extracted from the financial statements, which have been prepared in accordance with GAAP and the reporting currency is the Canadian dollar.

Fourth quarter **revenues decreased** by $14.0 million primarily due to:

- lower sales in ATCO Power's Alberta generating plants due to lower Alberta Power Pool prices; and
- the impact of a fourth quarter outage at the Barking generating plant in ATCO Power's U.K. operations.

These decreases were partially offset by:

- higher prices and volumes of natural gas processed for NGL extraction operations in ATCO Midstream; and
- the recording of GHG emission fees by Alberta Power (2000) recovered from its customers in accordance with the PPAs which cover costs of recent changes in environmental laws (refer to Business Risks - Environmental Matters section).

Temperatures in ATCO Gas for the three months ended December 31, 2007, were 0.8% colder than normal, compared to 5.2% colder than normal in 2006.

SEGMENTED EARNINGS ATTRIBUTABLE TO CLASS A AND CLASS B SHARES

($ millions)	For the Three Months Ended December 31		
	2007	2006	Change to 2007 (2007-2006)
		(unaudited)	
Utilities	**48.0**	43.7	9.8%
Power Generation	**25.5**	36.9	(30.9)%
Global Enterprises	**27.7**	27.3	1.5%
Corporate and Other	**(4.1)**	(6.5)	(36.9)%
Intersegment eliminations	**1.6**	(1.4)	214.3%
Earnings attributable to Class A and Class B shares	**98.7**	100.0	(1.3)%
Earnings per Class A and Class B share	**0.78**	0.80	(2.5)%
Diluted earnings per Class A and Class B share	**0.78**	0.80	(2.5)%
Adjusted earnings per Class A and Class B share	**0.60**	0.80	(25.0)%

Notes:
(1) There were no discontinued operations or extraordinary items during these periods.
(2) Due to the seasonal nature of the Company's operations, changes in electricity prices in Alberta, the timing and demand of natural gas storage capacity sold, changes in natural gas storage fees and the timing of rate decisions, earnings for any quarter are not necessarily indicative of operations on an annual basis.
(3) The above data has been extracted from the financial statements, which have been prepared in accordance with GAAP and the reporting currency is the Canadian dollar.

RECONCILIATION OF EARNINGS ATTRIBUTABLE TO CLASS A AND CLASS B SHARES AND ADJUSTED EARNINGS

For the Three Months Ended December 31

($ millions)	Utilities	Power Generation	Global Enterprises	Corporate & Other	Intersegment Eliminations	Total
2007						
Earnings attributable to Class A and Class B shares	**48.0**	**25.5**	**27.7**	**(4.1)**	**1.6**	**98.7**
2007 Changes in Income Taxes and Rates [2]	**(0.3)**	**(8.2)**	**-**	**-**	**(2.4)**	**(10.9)**
Mark-to-Market Adjustment	**-**	**(2.8)**	**-**	**-**	**-**	**(2.8)**
ATCO Gas Tax Reassessments	**(9.5)**	**-**	**-**	**-**	**-**	**(9.5)**
Adjusted Earnings	**38.2**	**14.5**	**27.7**	**(4.1)**	**(0.8)**	**75.5**
2006						
Earnings attributable to Class A and Class B shares	43.7	36.9	27.3	(6.5)	(1.4)	100.0
Adjusted Earnings	43.7	36.9	27.3	(6.5)	(1.4)	100.0

Notes:
(1) Refer to the Significant Non-Operating Financial Items section for a description of the items.
(2) In the fourth quarter an additional adjustment was made to reduce income tax expense relating to the impact of the income tax rate changes for the first nine months of 2007. This portion of the adjustment increased the Company's fourth quarter 2007 earnings by $1.5 million.

Fourth quarter **earnings were substantially unchanged** over 2006, including the impact of adjustments identified in the Significant Non-Operating Financial Items section.

Fourth quarter **Adjusted Earnings decreased** by $24.5 million (24.5%) over 2006 primarily due to:

- lower earnings in ATCO Power's Alberta generating plants due to lower spark spreads realized on sales of electricity;
- the impact of a fourth quarter outage at the Barking generating plant in ATCO Power's U.K. operations;
- increased operation and maintenance and depreciation expenses in ATCO Gas due to customer growth and increased capital expenditures; and
- warmer temperatures in ATCO Gas.

Partially offsetting the lower Adjusted Earnings were impacts from:

- higher prices and volumes of natural gas processed in NGL extraction operations in ATCO Midstream; and
- decreased share appreciation rights expense due to change in Canadian Utilities Class A non-voting share and ATCO Ltd. Class I Share prices since September 2007.

Alberta Power Pool electricity prices for the three months ended December 31, 2007, averaged $61.75 per MWh, compared to average prices of $116.81 per MWh for the corresponding period in 2006. Natural gas prices for the three months ended December 31, 2007, averaged $5.83 per GJ, compared to average prices of $6.55 per GJ for the corresponding period in 2006. The consequence of these changes in electricity and natural gas prices was an average spark spread of $18.00 per MWh for the three months ended December 31, 2007, compared to $67.66 per MWh for the corresponding period in 2006.

During the three months ended December 31, 2007, Alberta Power (2000)'s deferred availability incentive account increased by $4.5 million to $41.8 million. The increase was due to availability incentives earned in the quarter net of quarterly amortization. Amortization of deferred availability incentives, recorded in revenues, was $2.9 million, $0.2 million higher than the same period in 2006.

Interest and other income for the fourth quarter were positively impacted by increased income earned on cash balances due to higher short term interest rates and the Mark-to-Market Adjustment in ATCO Power.

OTHER EXPENSES	**For the Three Months Ended December 31**		
($ millions)	**2007**	2006	Change to 2007 (2007-2006)
		(unaudited)	
Operating expenses:			
Natural gas supply	**24.8**	10.2	143.1%
Purchased power	**13.6**	12.5	8.8%
Operation and maintenance	**251.4**	243.5	3.2%
Selling and administrative	**77.1**	74.9	2.9%
Franchise fees	**37.4**	42.4	(11.8)%
	404.3	383.5	5.4%
Depreciation and amortization expenses	**99.0**	95.6	3.6%
Interest expenses	**55.0**	54.6	0.7%
Income taxes	**13.1**	47.4	(72.4)%

Fourth quarter **operating expenses increased** by $20.8 million (5.4%) over 2006. Increased operating expenses were primarily due to higher prices and volumes of natural gas purchased for NGL extraction in ATCO Midstream higher operation and maintenance and selling and administrative expenses due to customer growth and increased business activity in ATCO Gas and ATCO Electric, higher operation and maintenance in ATCO Frontec due to increased international operations and the recording of GHG emission fees by Alberta Power (2000) recovered from its customers in accordance with the PPAs which cover costs of recent changes in environmental laws (refer to Business Risks - Environmental Matters section). These increases were offset by lower natural gas fuel purchases recovered on a "no-margin" basis in ATCO Power's U.K. operations and lower franchise fees collected by ATCO Gas on behalf of cities and municipalities.

Fourth quarter **depreciation and amortization** expenses increased as a result of increased capital additions in 2006 and 2007, mainly in the Utilities segment.

Interest expenses for the fourth quarter increased as a result of the new financings issued in 2006 and 2007, to fund capital expenditures in the Utilities operations, partially offset by the repayment of non-recourse long term debt in 2006 and 2007.

Income taxes in the fourth quarter decreased mainly due to the 2007 Changes in Income Taxes and Rates and the ATCO Gas Tax Reassessments.

LIQUIDITY AND CAPITAL RESOURCES

SUMMARY OF CASH FLOW

($ millions)	For the Three Months Ended December 31		
	2007	2006	Change to 2007 (2007-2006)
		(unaudited)	
Cash position, beginning of period	**682.9**	732.6	(6.8)%
Cash provided by (used in):			
Operating activities	**127.1**	119.9	6.0%
Investing activities	**(201.9)**	(160.6)	25.7%
Financing activities	**141.8**	95.3	48.8%
Foreign currency impact on cash balances	**(2.7)**	11.6	(123.3)%
Cash position, end of period	**747.2**	798.8	(6.5)%

OPERATING ACTIVITIES

Cash flow from operations for the fourth quarter increased by 6.0% primarily due to increases in funds generated by operations. **Funds generated by operations** increased by 6.9%, primarily due to increased deferred availability incentives in Alberta Power (2000).

INVESTING ACTIVITIES

Investing in the fourth quarter increased by 25.7%, primarily as a result of higher capital expenditures and changes in non-cash working capital. Increases in capital expenditures reflect increased investment in regulated electric distribution and transmission, regulated natural gas distribution and ATCO Frontec projects.

FINANCING ACTIVITIES

In the fourth quarter, the Company had **net debt increases** of $192.7 million. **Issuance** of debt included $220.0 million of 5.556% Debentures due October 2037 and $35.0 million of 4.883% Debentures due November 2012. **Redemptions** were comprised of $50.0 million of 4.801% Debentures due November 2007, and $12.3 million of non-recourse long term debt.

Fourth quarter **purchases** of Canadian Utilities' Class A non-voting shares under normal course issuer bids amounted to $8.0 million and issues of Canadian Utilities' Class A non-voting shares due to stock option exercises amounted to $0.3 million for a net change of $7.7 million.

FOREIGN CURRENCY TRANSLATION

Changes in U.K. and Australian exchange rates had a negative impact on the Company's cash position of $14.3 million.

CANADIAN UTILITIES LIMITED

Consolidated Five-Year Financial Summary

(Millions of Canadian dollars, except as indicated)		**2007**	2006	2005	2004 [1]	2003
EARNINGS						
Revenues		**2,404.9**	2,430.4	2,515.8	3,011.4	3,742.6
Operating expenses		**1,401.6**	1,390.7	1,553.9	2,107.5	2,868.7
Depreciation and amortization		**351.5**	348.5	311.5	291.5	269.2
Interest		**217.4**	222.9	210.0	203.7	190.3
Interest and other income		**(64.3)**	(58.5)	(36.6)	(94.1)	(33.4)
Income taxes		**77.7**	167.1	175.6	158.0	155.6
Dividends on equity preferred shares		**34.3**	35.8	35.8	35.8	33.1
Earnings attributable to Class A and Class B shares		**386.7**	323.9	265.6	309.0	259.1
Adjusted earnings [2]		**343.8**	320.8	-	-	-
SEGMENTED EARNINGS						
Utilities		**139.7**	121.2	106.0	168.7	121.3
Power generation		**134.7**	119.2	105.2	82.0	94.1
Global enterprises		**110.0**	101.0	78.8	70.1	54.8
Corporate and other/eliminations		**2.3**	(17.5)	(24.4)	(11.8)	(11.1)
Earnings attributable to Class A and Class B shares		**386.7**	323.9	265.6	309.0	259.1
BALANCE SHEET						
Cash [3]		**747.2**	798.8	824.4	698.3	328.1
Property, plant and equipment		**5,678.5**	5,426.1	5,208.7	5,042.5	4,835.4
Total assets		**7,285.4**	6,993.5	6,817.8	6,617.5	6,237.6
Capitalization:						
Long term debt		**2,603.2**	2,411.5	2,231.0	2,171.0	1,805.3
Non-recourse long term debt		**478.1**	626.7	673.8	760.9	806.1
Equity preferred shares		**625.0**	636.5	636.5	636.5	636.5
Share owners' equity [4]		**2,521.7**	2,324.7	2,223.5	2,117.7	1,948.5
Total capitalization		**6,228.0**	5,999.4	5,764.8	5,686.1	5,196.4
CASH FLOWS						
Funds generated by operations [5]		**725.9**	657.5	659.3	538.3	525.8
Purchase of property, plant and equipment		**700.8**	567.7	526.7	535.5	495.7
Financing (excluding Class A and B dividends)		**58.0**	44.4	(2.2)	333.8	(10.6)
Class A and B dividends		**156.8**	176.7	139.6	134.4	129.3
CLASS A & B SHARES						
Shares outstanding at end of year [4] (thousands)		**125,295**	125,388	126,892	126,783	126,767
Return on equity [4] (%)		**16.0**	14.3	12.2	15.2	13.7
Earnings per share [4] ($)		**3.08**	2.57	2.09	2.44	2.04
Adjusted earnings per share [2] [4] ($)		**2.74**	2.54	-	-	-
Dividends paid per share [4] [6] ($)		**1.25**	1.40	1.10	1.06	1.02
Equity per share [4] ($)		**20.13**	18.54	17.52	16.70	15.37
Stock market record - Class A non-voting shares($)	High	**55.00**	48.94	46.20	32.00	29.80
	Low	**41.83**	35.15	29.55	25.71	22.55
	Close	**46.40**	47.73	43.98	30.16	28.93
Stock market record - Class B common shares($)	High	**54.00**	48.85	45.82	31.95	29.375
	Low	**42.00**	35.72	29.63	25.70	22.75
	Close	**46.00**	47.66	43.85	31.95	29.00

(1) Includes the gain on the transfer of retail energy supply businesses that occurred on May 4, 2004. Revenues and natural gas supply and purchased power costs after May 4, 2004 were reduced accordingly for 2004 and thereafter.

(2) Adjusted earnings are defined as earnings attributable to Class A and Class B shares after adjustements for items that are not in the normal course of business nor a result of day to day operations. The majority of these adjustments in 2007 related to tax issues. This measure is not defined by Generally Accepted Accounting Principles and may not be comparable to similar measures used by other companies. Adjusted earnings have been calculated starting in 2006, as a result, adjusted earnings for 2003, 2004 and 2005 are not included.

(3) Cash is defined as cash and short-term investments less bank indebtedness.

(4) Includes Class A non-voting shares and Class B common shares.

(5) Funds generated by operations is defined as cash generated from operations before changes in non-cash working capital. This measure is not defined by Generally Accepted Accounting Principles and may not be comparable to similar measures used by other companies.

(6) Dividends paid per share include a Special Dividend of $0.25 paid to Class A and Class B share owners on September 1, 2006.

CANADIAN UTILITIES LIMITED

Consolidated Five-Year Operating Summary

(Millions of Canadian dollars, except as indicated)	2007	2006	2005	2004	2003
Utilities					
Natural gas distribution operations					
Purchase of property, plant and equipment	**191.6**	167.4	174.0	154.3	141.0
Pipelines (thousands of kilometres)	**36.5**	35.9	35.4	34.8	34.2
Maximum daily demand (terajoules)	**1,819**	1,861	1,919	2,049	1,831
Natural gas sold [1] (petajoules)	**-**	-	-	103	198
Natural gas distributed [1] (petajoules)	**233**	219	216	120	32
Total system throughput (petajoules)	**233**	219	216	223	230
Average annual use per residential customer (gigajoules)	**127**	126	131	134	134
Degree days - Edmonton [2]	**3,992**	3,819	3,641	3,985	4,245
- Calgary [3]	**4,058**	3,910	3,934	3,978	4,291
Customers at year-end (thousands)	**1001.8**	969.9	939.6	914.3	887.8
Electric distribution and transmission operations					
Purchase of property, plant and equipment	**311.8**	238.1	212.2	223.4	171.6
Power lines (thousands of kilometres)	**70.9**	70.1	69.2	68.0	67.0
Electricity distributed (millions of kilowatt hours)	**10,744**	10,286	9,926	9,910	9,768
Average annual use per residential customer (kWh)	**7,690**	7,495	7,214	7,475	7,261
Customers at year-end (thousands)	**223.0**	216.3	210.9	206.2	202.3
Natural gas transmission operations					
Purchase of property, plant and equipment	**87.1**	97.7	84.3	47.9	33.6
Pipelines (thousands of kilometres)	**8.4**	8.4	8.3	8.3	8.3
Contract demand for pipelines system access (terajoules/day)	**5,143**	5,032	4,830	4,606	4,599
Power Generation					
Purchase of property, plant and equipment	**49.2**	48.1	41.2	77.0	131.7
Generating capacity operated (megawatts)	**4,840**	4,840	4,840	4,840	4,409
Generating capacity owned (megawatts)	**2,467**	2,474	2,474	2,474	2,397
Availability (%)	**91.6**	93.0	92.5	91.9	90.4
Global Enterprises					
Purchase of property, plant and equipment	**62.7**	14.2	11.9	14.5	15.5
Natural gas processed (Mmcf/day)	**478**	480	476	427	399
Natural gas gathering lines (kilometres)	**1,000**	1,000	1,000	1,000	1,000

(1) Effective May 2004, with the transfer of the retail energy supply businesses, ATCO Gas' existing sales service customers became transportation service customers.

(2) Degree days - Edmonton - are defined as the difference of the mean daily temperature from 14.5 degrees Celsius.

(3) Degree days - Calgary - are defined as the difference of the mean daily temperature from 15.5 degrees Celsius.

GENERAL INFORMATION

INCORPORATION
Canadian Utilities Limited was incorporated under the laws of Canada on May 18, 1927 and was continued under the Canada Business Corporations Act by Articles of Continuance on August 15, 1979.

ANNUAL MEETING
The Annual Meeting of Share Owners will be held at 10:00 a.m., Wednesday, May 7, 2008 at The Fairmont Hotel Macdonald, 10065 - 100 Street, Edmonton, Alberta.

AUDITORS
PricewaterhouseCoopers LLP
Calgary, Alberta

COUNSEL
Bennett Jones LLP
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR
Class A non-voting and
Class B common shares and
Second Preferred
(Series W and X) Shares
CIBC Mellon Trust Company
Calgary/Montreal/Toronto/Vancouver

TRUSTEE AND REGISTRAR
Debentures
CIBC Mellon Trust Company
Calgary/Montreal/Toronto/Vancouver

STOCK EXCHANGE LISTINGS
Class A non-voting Symbol CU
Class B common Symbol CU.X
Listing: The Toronto Stock Exchange

CUMULATIVE REDEEMABLE SECOND PREFERRED SHARES
5.80% Series W CU.PR.A
6.00% Series X CU.PR.B
Listing: The Toronto Stock Exchange

ATCO GROUP ANNUAL REPORTS
Annual Reports to Share Owners and Financial Information (Consolidated Financial Statements & Management's Discussion and Analysis) for Canadian Utilities Limited and its parent company, ATCO Ltd., are available upon request from:

ATCO Ltd. & Canadian Utilities Limited
1400, 909 – 11th Avenue SW
Calgary, Alberta T2R 1N6

Telephone: (403) 292-7500
Website: www.canadian-utilities.com
www.atco.com

SHARE OWNER INQUIRIES
Dividend information and other inquiries concerning shares should be directed to:

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario
Canada M5C 2W9

Telephone: 1-800-387-0825
Outside of North America: +1 (416) 643-5500
Fax: (416) 643-5501
Website: www.cibcmellon.com

Printed in Canada

Canadian Utilities Limited
1400, 909 – 11th Avenue SW, Calgary, Alberta T2R 1N6

Telephone: (403) 292-7500
Fax: (403) 292-7623

www.canadian-utilities.com

S IS A DIVERSIFIED, CANADIAN-BASED, INTERNATIONAL GROUP OF COMPANIES

CANADIAN UTILITIES

CANADIAN UTILITIES LIMITED ANNUAL REPORT 2007

DEFINING EXCELLENCE
Canadian Utilities in 2007

INTERNATIONAL SUPPORT
ATCO Frontec's Operations

ENVIRONMENTAL STEWARDSHIP
Feature Included

CANADIAN UTILITIES LIMITED
An ATCO Company

CANADIAN UTILITIES LIMITED

ANNUAL REPORT 2007

Canadian Utilities Limited is a diversified, Canadian-based, international group of companies focused on profitable sustainable growth and achievement with **$7.3** BILLION IN ASSETS AND MORE THAN **6,500** PEOPLE ACTIVELY ENGAGED IN Power Generation, Utilities (natural gas and electricity transmission and distribution) and Global Enterprises, with companies active in technology, logistics and energy services.

COVER PHOTO:
ATCO Electric owns and operates the transmission line between Bonnyville and Lac La Biche in north-central Alberta.

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Features

DEFINING EXCELLENCE

GENERAL INFORMATION:

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TRUSTEE AND REGISTRAR
Debentures
CIBC Mellon Trust Company
Calgary/Montreal/Toronto/Vancouver

STOCK EXCHANGE LISTINGS
Class A non-voting Symbol CU
Class B common Symbol CU.X
Listing: The Toronto Stock Exchange
Cumulative Redeemable Second Preferred Shares
5.80% Series W Symbol CU.PR.A
6.00% Series X Symbol CU.PR.B
Listing: The Toronto Stock Exchange

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Toronto, Ontario M5C 2W9
Telephone: 1-800-387-0825
Outside of North America: +1 (416) 643-5500
Fax: (416) 643-5501
Website: www.cibcmellon.com

Printed in Canada

FINANCIAL HIGHLIGHTS

CONSOLIDATED ANNUAL RESULTS

YEAR ENDED DECEMBER 31

(millions of Canadian dollars except per share data)	2007	2006
FINANCIAL		
Revenues	**2,404.9**	2,430.4
Earnings attributable to Class A & Class B shares	**386.7**	323.9
* Adjusted earnings	**343.8**	320.8
Total assets	**7,285.4**	6,993.5
Class A & Class B share owners' equity	**2,521.7**	2,324.7
** Funds generated by operations	**725.9**	657.5
Capital expenditures	**700.8**	567.7
CLASS A NON-VOTING & CLASS B COMMON SHARE DATA		
Earnings per share	**3.08**	2.57
Diluted earnings per share	**3.07**	2.56
* Adjusted earnings per share	**2.74**	2.54
Dividends paid per share	**1.25**	1.40
Equity per share	**20.13**	18.54
Shares outstanding (thousands)	**125,295**	125,388
Weighted average shares outstanding (thousands)	**125,409**	126,219

* Adjusted earnings are defined as earnings attributable to Class A and Class B shares after adjustment for items that are not in the normal course of business nor a result of day to day operations. The majority of these adjustments in 2007 related to tax issues. This measure is not defined by Generally Accepted Accounting Principles and may not be comparable to similar measures used by other companies.

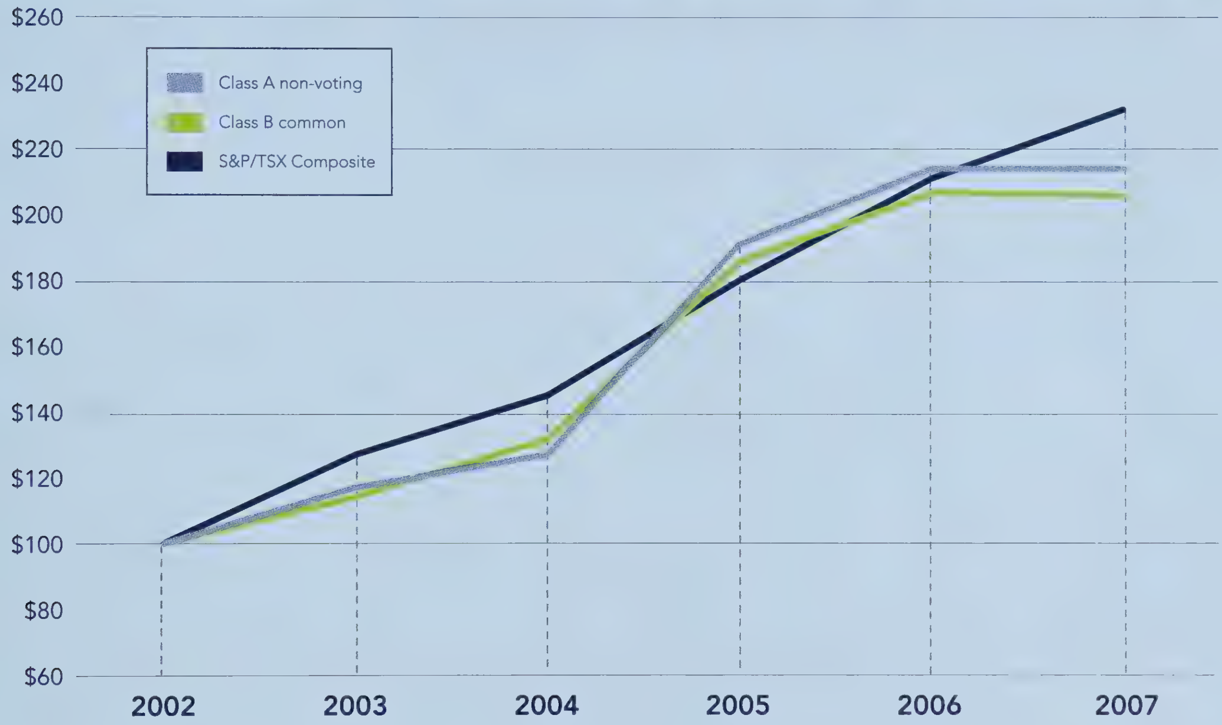
** Funds generated by operations is defined as cash generated from operations before changes in non-cash working capital. This measure is not defined by Generally Accepted Accounting Principles and may not be comparable to similar measures used by other companies.

For further information please see Canadian Utilities' Consolidated Financial Statements - www.sedar.com.

FORWARD-LOOKING INFORMATION:

This Annual Report contains forward-looking information pertaining to contractual obligations, planned capital expenditures, the impact of changes in government regulation, non-regulated generating capacity subject to long-term contracts and the impact of commodity prices. The Corporation's actual results could differ materially from those anticipated in this forward-looking information as a result of regulatory decisions, competitive factors in the industries in which the Corporation operates, prevailing economic conditions, and other factors, many of which are beyond the control of the Corporation.

Five-Year Total Return on $100 Investment



CANADIAN UTILITIES LIMITED Share Ownership

It is important for prospective owners to understand that Canadian Utilities Limited is a diversified group of companies principally controlled by ATCO Ltd., which in turn is principally controlled by Sentgraf, a Southern family holding company.

It is also important for present and prospective share owners to understand that Canadian Utilities share registry has both non-voting and voting common shares.

	COMPOUND GROWTH RATE	CUMULATIVE RETURN
Class A non-voting	16.4%	$214
Class B common	15.6%	$206
S&P/TSX Composite	18.3%	$232

The graph compares the cumulative share owner return over the last five years on the Class A non-voting and Class B common shares of the Corporation (assuming reinvestment of dividends) with the cumulative total return of the S&P/TSX composite index.

> **“** The continued **strengthening** of our relationships with our **customers** and our ability to offer quality solutions that provide product and pricing that is **competitive**, is a key driver across our companies. **”**
>
> ***N.C. Southern***
> *President & Chief Executive Officer*

Top Right: Jeff Hebert, ATCO Electric serviceman at a farm near Forestburg.

Top Left: During one of ATCO EnergySense's 43,000 residential energy evaluations conducted in Alberta, Brad Harrison, Energy Advisor, explains to a customer how a blower-door fan operates as part of his comprehensive energy efficiency home evaluation.

Above: Darcey Schwab with ATCO Gas is surveying a new gas main extension in southern Alberta.

Right: ATCO Pipelines continued to develop infrastructure in 2007 to accommodate Alberta's upgraders, petro-chemical and power generating growth.

Chairman's Letter to Share Owners

BY R.D. SOUTHERN

THE LAST FIVE YEARS HAVE BEEN MARKED BY A GREAT QUANTITY OF MANDATED CHANGES IN GOVERNANCE AND AUDITING STANDARDS AS WE NOW PREPARE FOR INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN 2011.

This year we have:

- expanded disclosure in the Proxy Circular;
- rewritten our Management's Discussion and Analysis (MD&A) in an effort to make the document more user friendly;
- as part of Directors' education, prepared a Reference Manual for each Principal Operating Subsidiary. The document will also assist with the indoctrination of new Directors and Officers;
- established an IFRS Project Steering Committee; identified the Project Lead Manager; prepared the overall plan; commenced education sessions and established working groups;
- continued our reviews and refreshment of our policies and mandates;
- reviewed our pensions, internal control design and disclosures; and
- changed the emphasis at our Directors' meetings, minimizing time spent on our consent agenda, committee reports, etc. and freed up time for discussion of strategic issues (with and without management presence).

In all, it has been a most productive year and your Directors and Officers have been engaged to the hilt in these issues. I feel share owners may best judge our progress if the reader can take the time to fully read our 2007 Proxy Circular, Consolidated Financial Statements and MD&A, Annual Information Form and, of course, this Annual Report.

Your Directors would like to recognize the notable achievements of 2007 and thank, in a most emphatic way, the people and the exceptional leadership in all the companies of Canadian Utilities.

Smooth courses are not always open to each of you – but genuinely from all Directors – congratulations on a job well done! .... more than well done!

William Britton, Brian Drummond, Basil French and Helmut Neldner are retiring from the Board of Directors this year and we are sincerely grateful for their outstanding counsel, commitment and loyal dedication to our Corporation.

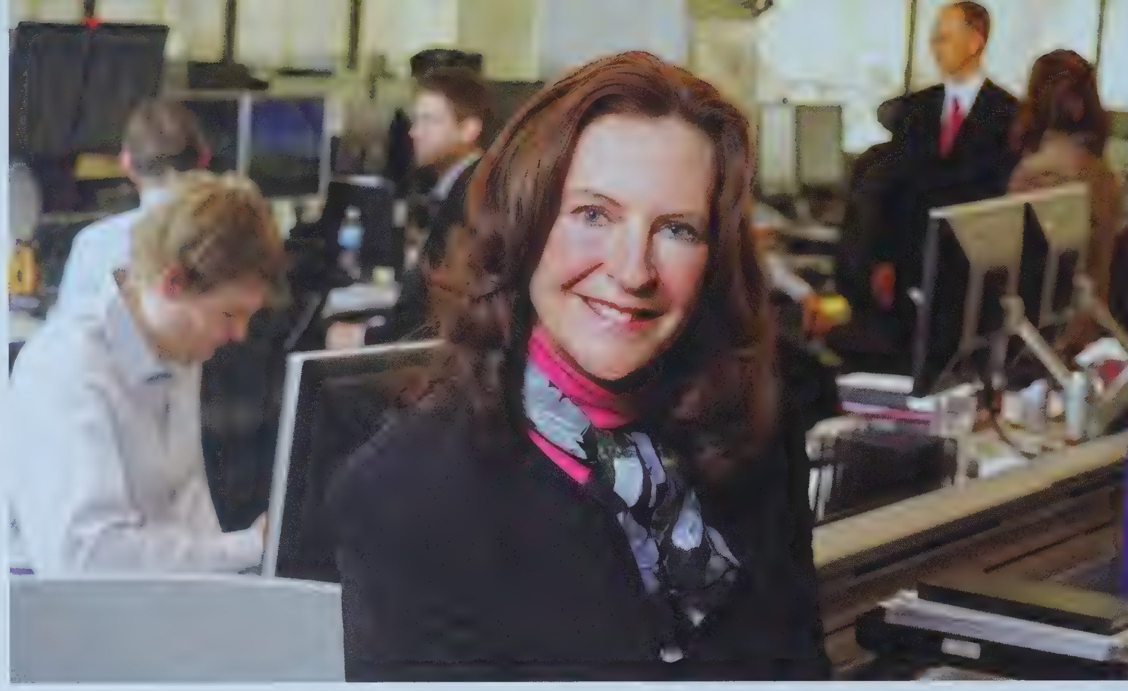
We would also like to salute Bill Horton, Walter Kmet and Sam Spanglet, members of our Business Group Boards, who are also retiring, for their dedicated contribution and help in giving us success.

As noted in our Proxy Circular, and if elected to the Board of Directors of Canadian Utilities Limited, we would like to welcome for the first time, Denis Ellard, Bob Normand and Rob Routs.

Respectfully submitted,

R.D. Southern

CHAIRMAN OF THE BOARD



President's Letter

BY NANCY C. SOUTHERN

TO THE OWNERS OF CANADIAN UTILITIES – I AM DELIGHTED TO REPORT TO YOU ON OUR 2007 RESULTS, YOUR CORPORATION'S BEST-EVER YEAR WHICH REFLECTS A TREMENDOUS EFFORT AND COMMITMENT TO EXCELLENCE BY OUR PEOPLE:

- Earnings of $386.7 million – up 19 per cent;
- Adjusted earnings of $343.8 million – up 7 per cent;
- Total assets of $7.3 billion – up $291.9 million; and
- The number of people at your Corporation has grown by 500 - up 8 per cent.

These accomplishments continue to be underscored by our focus on safety and reliability in order to deliver sustainable growth for our share owners.

Furthermore, our disciplined approach to growth preserved an exceptionally strong balance sheet in 2007. In fact, during a period of significant financial market turmoil, Canadian Utilities Limited – 52 per cent owned by ATCO – was upgraded by Standard & Poors to an 'A' credit rating from an A-. In light of global credit concerns and as interest rate spreads continue to widen, Canadian Utilities should be in a position to take advantage of a lower cost of debt than many of our competitors in 2008.

It is worthy to note that our credit upgrade occurred in parallel with our $700.8 million capital program in 2007, primarily driven by infrastructure investment for our utilities operations. The utilities' rate base has grown by $0.8 billion or 28 per cent over the past three years, and our forecast for the next three years is to invest an additional $3 billion in utility infrastructure which would have the effect, in the event, of doubling the size of our utility companies in just six years. Even more positive and beneficial, such organic growth will not weigh down our balance sheet with premiums frequently paid for goodwill incurred with acquisitions.

I also want to draw attention to the accumulated business strength created through the diversity of our operations; a vigorous advantage that serves the Corporation well. This long-standing strategy of diversification over multiple business sectors has enabled the Corporation to capitalize on a variety of opportunities.

The 'piston-effect,' that occurs when diverse operating companies are experiencing growth while others may be entering a downturn cycle, has proven successful as a natural hedge and results in the creation of strong, sustainable value. I am especially pleased with our success in a number of areas where new projects were initiated: NATO support in Afghanistan and midstream growth in Saskatchewan and Manitoba.

"I would like to congratulate the 6,500 men and women of Canadian Utilities who have worked so industriously this year to deliver excellence and record results to our share owners."

The Managing Directors aptly present the highlights of our operations for 2007, so I will focus on a few comments and perspectives regarding 2008 and beyond.

Our customers are the most important element in our pursuit of future growth, their sophistication and knowledge cannot be underestimated. The continued strengthening of our relationships with our customers and our ability to offer quality solutions that provide product and pricing that is competitive, is a key driver across our companies so we can be first to deliver a complete package or suite of solutions that meets our customers' needs.

The Corporation's growth depends on our ability to gain an intimate understanding of our clients' objectives and a complete picture of what they are striving to achieve. The combination of quality product and superior service will differentiate us from our competitors, drive real value for our customers and create meaningful growth.

There is little doubt that we are experiencing a slow down in economic activity, especially in the United States, which may spread to other nations including Canada. We have proactively prepared our management teams by ensuring they have the right combination of wisdom, capacity and experience to be the customer's first choice. We have also focused on challenging our 'end to end' processes, sought greater efficiencies and streamlined our ability to deliver on-time and on-budget.

New global purchasing functions are being designed to assist with cost reduction, on-time delivery and quality assurance from our major suppliers. This complements several new strategic alliances recently forged for engineering, procurement and construction.

These initiatives will drive significant benefits by reducing the current high demand on our engineering and project teams, while also reducing costs for large bulk purchases such as wire, utility poles and PVC pipe.

Another progressive step is the development of a new corporate-wide, leading edge human resources information system – part of a parallel initiative to recruit, retain and train an exceptional and committed workforce. In 2008, phase one will enable the Company to more effectively source, track and deploy (among a host of other tasks) people across our organization and around the world.

In 2008, Canadian Utilities' Chief Financial Officer Karen Watson and I, along with your Board of Directors, will dedicate a great deal of time to a strategic review of Canadian Utilities' organizational structure, while evaluating the competitive position of each of our principal operating subsidiaries and their potential for growth in their respective industries.

I would like to congratulate the 6,500 men and women of Canadian Utilities who have worked so industriously this year to deliver excellence and record results to our share owners.

In closing, I also wish to express my sincere appreciation to our Board of Directors, who ardently apply themselves year-round, to the good governance and strategic oversight of your Corporation. The individual and collective wisdom and experience of this remarkable group serves to differentiate Canadian Utilities from its peers.

Sincerely,

N.C. Southern
PRESIDENT & CHIEF EXECUTIVE OFFICER

THE YEAR OF **DEFINING EXCELLENCE:**

CANADIAN UTILITIES in 2007

*"I'm very pleased with the kind of **dedication** and **commitment** that our people have shown in meeting our growth challenges this year. In light of record business activity on all fronts I am so proud of our ongoing attention to detail and the fulfillment of our promises to our customers."*

Nancy Southern, President & Chief Executive Officer

2007 will be remembered as the year of defining excellence at Canadian Utilities.

The achievement of record financial results reflects the remarkable contributions of the people of Canadian Utilities and the spirit of perseverance that underlies all that the Corporation does.

"In Alberta and around the world, the people of Canadian Utilities are delivering quality products and services despite the very real constraints presented by Alberta's rapid growth," said Nancy Southern, President & Chief Executive Officer.

Heightened attention and sharp focus are being directed towards recruitment, retention and career development, specifically designed to prepare the Corporation's future leaders. The Utilities division alone hired about 400 new people – a key indicator of the Company's growth. Employee orientation and on-boarding programs continued, and a New Graduate Rotational Training Program was introduced in ATCO Power.

Matt Vautour, an apprentice lineman, practices doing live-line work at the Nisku training centre. In 2007, ATCO Electric's Power Lineman Apprenticeship Program had its largest classes yet — 35 apprentices in various stages of their four-year program.

Many records were set for growth, capital expenditure and safety; recognition and accolades abounded for environmental performance and exemplary, safe projects. The following are but a few of the many awards garnered by Canadian Utilities in 2007.

- **An unprecedented four companies, ATCO Power, ATCO Pipelines, ATCO Midstream and ATCO Frontec, were honoured as "Best Safety Performers" by Alberta's Occupational Health and Safety Council.**
- **ATCO Power also received the Bronze Award of Excellence from the Canadian Electricity Association for employee safety in 2006.**
- **ATCO Gas was recognized by the Canadian Gas Association for its best practices in pipeline damage prevention. The company achieved the lowest number of third-party damages per 1,000 locates in all of Canada.**
- **ATCO Gas, ATCO Electric and ATCO Power received the 2007 Corporate Volunteer Award of Excellence in the large business category. Presented by the Wild Rose Foundation and the Alberta Government, the award honours outstanding leadership, commitment and contribution to community building.**
- **Customer service remained at the forefront, with ATCO I-Tek named as best call centre in the North American energy sector for the second consecutive year.**
- **ATCO Pipelines achieved the Gold Champion Level Reporter designation – the highest level – from the Canadian Greenhouse Gas Challenge Registry for its Greenhouse Gas Action Plan to mitigate greenhouse gas emissions.**

The numerous awards across so many important facets of our business – safety, environment and serving customers – reflect the commitment to excellence that sets Canadian Utilities apart and forms the foundation of the Corporation's success.

"Each division – Utilities, Power Generation and Global Enterprises – performed exceedingly well, contributing to 2007 record earnings in Canadian Utilities," said Ms. Southern. "It was the effort and commitment of our people in each of those divisions that truly made 2007 a year of defining excellence." ■

ATCO Gas employees Andrew Korns (left) and Paul Unangst are both distribution operator field employees in Canmore.

UTILITIES

"**2007** exceeded our previous year by almost **17 per cent** in capital expenditures. The Utilities division invested a record $589 million in new infrastructure in Alberta — it was truly a remarkable year."

Siegfried Kiefer, Managing Director, Utilities

With 25 years of service, Siegfried Kiefer leads the Utilities division as its Managing Director, appointed to the role in 2004. Mr. Kiefer has also served as Chief Information Officer since 1998.

ATCO Gas

- An Alberta-based, province-wide natural gas distribution company
- More than 2,000 employees
- Serves more than one million customers in nearly 300 communities

ATCO Electric

- Builds, operates and maintains transmission and distribution lines in northern and east-central Alberta
- More than 1,200 employees
- Serves more than 197,000 customers in 245 communities

Yukon Electrical
An ATCO Company

- Yukon Electrical provides electricity to more than 15,000 customers in 19 communities from south of the Yukon border to north of the Arctic Circle
- More than 50 employees

Northland Utilities
An ATCO Company

- Northland Utilities provides electricity to more than 10,000 customers in nine communities throughout the Northwest Territories
- More than 40 employees

ATCO Pipelines

- A provider of natural gas transmission services to producers, major industrial users and gas distribution companies in Alberta
- More than 300 employees
- Provides peak delivery of 3.7 billion cubic feet per day

CU WATER LIMITED
An ATCO Company

- Owns and operates 153 kilometres of water transmission pipeline

UTILITIES

ATCO Gas

ATCO Gas customers receive the lowest rate in the entire country for natural gas distribution — from a company with nearly a century of experience behind it.

ATCO Gas grew with Alberta in 2007, completing a record number of installations while at the same time establishing new safety performance standards.

The numbers are significant. In 2007, capital expenditures surpassed $191 million as the company expanded and maintained its extensive natural gas delivery system consisting of 36,487 kilometres of pipeline to support Alberta's booming economy.

Almost 32,000 customers were added to the system — an average of 87 homes, businesses and institutions per day — with the largest increase in northern Alberta. A significant milestone for the company was adding the one millionth customer to the system. (See sidebar story).

The growth kept distribution operators busy, as the people of ATCO Gas completed 625,016 jobs at 599,242 service calls. These jobs included equipment and appliance inspections, meter installations and moves, emergency response to gas odours and carbon monoxide calls, and requests to re-light appliances — all within the lowest delivery charge in Canada.

"In ATCO Gas our people not only completed a record amount of work, they also established new records of health and safety performance," said Siegfried Kiefer, Managing Director, Utilities. "That is a tremendous accomplishment and it demonstrates the dedication and commitment of our employees."

ATCO Gas is regulated by the Alberta Utilities Commission (AUC), formerly the Alberta Energy and Utilities Board (AEUB), which approves rates for services. ATCO Gas filed a General Rate Application in 2007 for the period 2008 and 2009 and expects a decision in the third quarter of 2008.

ATCO GAS CELEBRATES ONE MILLIONTH CUSTOMER

ATCO GAS REACHED AN HISTORIC MILESTONE IN 2007 – THE ONE MILLIONTH CUSTOMER WAS CONNECTED TO THE COMPANY'S SAFE, RELIABLE, PROVINCE-WIDE, NATURAL GAS DISTRIBUTION NETWORK.

At a special ceremony, Edmonton homeowner Mike Carson was presented with a natural gas barbecue and gift basket from the famed ATCO Blue Flame Kitchen.

"This watershed in the ATCO Gas story is important, not only because it reflects the tremendous growth and development our province has seen over the years but also because it gives us pause to express our gratitude to Albertans for allowing the company to be such an essential and continuous presence in their homes for so many years," said Nancy Southern, President & Chief Executive Officer, Canadian Utilities.

This major milestone in the history of ATCO Gas may have seemed unimaginable when, in 1952, the company celebrated what was then a remarkable achievement – 100,000 customers.

"Despite the phenomenal level of construction activity in the province, the people of ATCO Gas put safety first in everything they do," said Jerome Engler, President, ATCO Gas. "The greatest compliment for ATCO Gas is that on most days our customers don't even know we're there."

A province-wide print recruitment campaign, celebrating the one millionth customer, featured images of ATCO Gas' people.

Recruiting and retaining a sufficient number of skilled people is essential to the success of ATCO Gas and extensive work continues to ensure the company is an employer of choice.

ATCO Gas employs more than 2,000 people, including engineers and accountants, distribution operators and meter readers, technologists and clerical employees. In 2007, the company recruited 233 people, from new graduates to experienced professionals.

"I'm very pleased with the ability of the Utilities division to recruit quality personnel in 2007. I think a lot of that comes from our reputation. We're very well-regarded by our customers," added Mr. Kiefer. "In fact, one of the things that pleases me most when I go into the field are the positive compliments I receive from customers about our personnel. Everyone at ATCO is keeping that reputation for excellent customer service intact."

ATCO Electric

ATCO Electric's transmission and distribution power lines are the arteries that supply Alberta customers with electricity — whether to the booming oil and gas communities of Fort McMurray and Grande Prairie, the rugged, mountainous resort town of Jasper, or the steep, dry coulees of Drumheller.

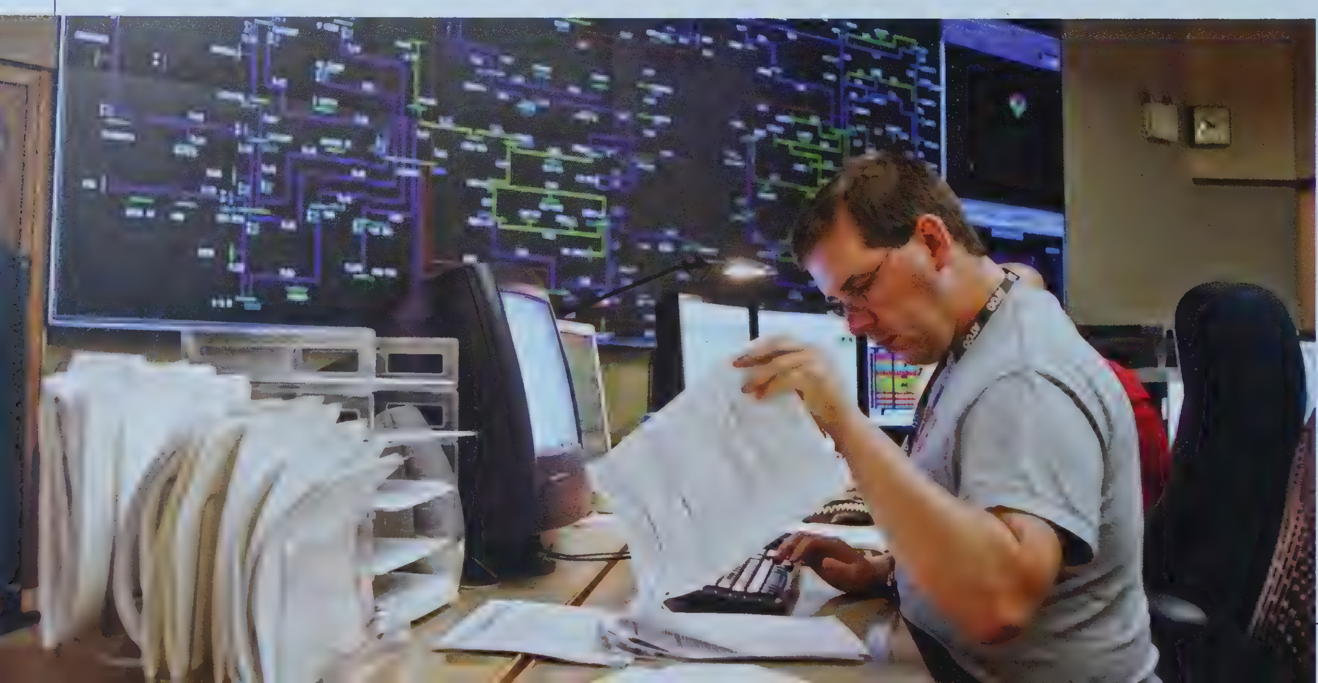
ATCO Electric operates and maintains more than 68,600 kilometres of transmission and distribution power lines and operates approximately 12,000 kilometres of distribution power lines on behalf of Rural Electrification Associations.

Of significant importance, ATCO received final AEUB approval in late 2007 to proceed with construction of a new 240-kV transmission line in northwest Alberta.

"That approval was completed without any landowner issues, which in this day and age, where land use is a contentious area, is a remarkable achievement. I'm very proud of our people for working with our customers to find a solution that's acceptable for their needs," said Mr. Kiefer. (See story on page 13).

During 2007, ATCO Electric experienced record levels of capital work in distribution and transmission due to growing customer demand and intense economic activity in Alberta. This kind of growth creates both challenges and opportunities, particularly with those operations in the high growth areas of the province like Fort McMurray and Grande Prairie.

Clinton Hesje is an assistant operator at ATCO Electric's system control centre (SCC) in Vegreville. The SCC is the veritable mission control of ATCO Electric, where employees are responsible for controlling more than 9,100 kilometres of transmission lines and 147 substations.



ATCO ELECTRIC'S COMMUNITY CONSULTATION SETS GROUNDWORK FOR 240-kV TRANSMISSION LINE

ATCO Electric's new Brintnell-Wesley Creek transmission line, which will strengthen the grid system in Alberta's northwest, stands testament to ATCO's commitment to community consultation.

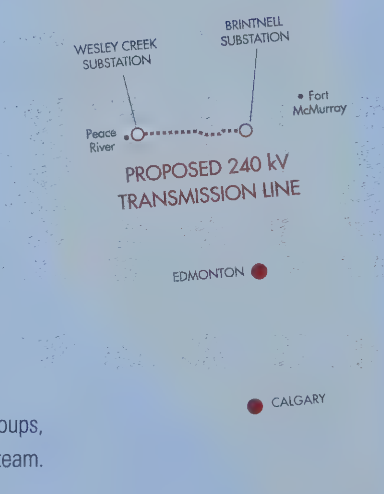
The new 240-kilovolt (kV) line will extend from the Wabasca area of Alberta, northeast of Slave Lake, to the Peace River region to support increasing power needs in that burgeoning part of the province.

The critically important 226-kilometre line project was only possible after consultation with, and input from, involved landowners, First Nations and Aboriginal communities in the fall of 2006.

Those talks were smoothly executed in advance allowing the project to launch ahead of schedule. The consultations were the result of positive relationships nurtured by several groups, including ATCO Electric's Aboriginal Relations team.

ATCO has a long-standing commitment to build and maintain positive relations with Aboriginal communities throughout the areas the company operates and serves.

"We initiated our project consultation as soon as possible and I believe working together with the communities led to our success," said Andre Schutta, Director, Aboriginal Relations, ATCO Utility Business Group. "We listened to the communities' concerns and met the commitments. Elders and community members went out to see the right of ways and the project … it's all about building and maintaining positive relationships."



At the same time, ATCO Electric's engineers were working daily to keep landowners and Aboriginal groups involved in each step of the process.

"Consultation is an ongoing process. It goes through phases. This is always a sensitive area and ATCO has always been very sensitive to landowners' concerns," said Ray Boven, ATCO Electric Vice President, Engineering.

ATCO Electric prides itself in being a good corporate citizen and having positive relationships with the communities in the vicinity of its operations. Building relationships with Aboriginal communities and other landowners along the wire corridor is equally important.

> "We listened to the communities' concerns and met the commitments. Elders and community members went out to see the right of ways and the project … it's all about building and maintaining positive relationships."

The result is a transmission route that minimized the impact on communities, landowners and the environment.

The Brintnell-Wesley line is expected to be completed by March 31, 2010 at an estimated cost of $210 million and includes the expansion of two existing substations.

The project is the first major transmission line for ATCO Electric since the Edison Award-winning Dover-to-Whitefish transmission line was completed in 2004.

The company invested a record amount in capital – more than $296 million – over 30 per cent more than was spent in 2006, the previous record year. That included more than $161 million invested in distribution (an increase of over 20 per cent from 2006) and $91 million in transmission (a 43 per cent increase from 2006). ATCO Electric also invested millions of dollars in technology, fleet and isolated generation.

"At ATCO Electric, all of the in-service date targets for transmission capital construction programs were met, except for one, which is quite a track record given what's going on in the province today," said Mr. Kiefer. "The in-service date target that was not met was delayed as a result of the regulatory process, so I feel very good about our people and their determination to deliver on our commitments."

ATCO Electric added 6,233 new customers, bringing the total number served to 197,364 in 245 Alberta communities. To manage this incredible growth, in 2006 ATCO Electric started to implement improvements in the way it plans, builds and resources new lines.

Great progress was made in 2007 — the first full year under the new improvement processes.

ATCO Electric is at various stages of developing or implementing technology-based initiatives to ensure the safe, reliable delivery of electricity. These initiatives include Workforce Management, Outage Management and Geographic Information Systems, tools which will assist field employees to manage a growing workload and ensure their safety through the use of Global Positioning System technology.

Following two hearings before the AEUB — one on the 2007-08 General Tariff Application in May and another on proposed new distribution rates in June — the company received decisions and implemented new rates, effective January 1, 2008.

CU WATER LIMITED
An ATCO Company

CU Water owns and operates 153 kilometres of water transmission pipeline from Sherwood Park to Kinsella, Alberta. In addition to serving communities along the transmission pipeline, approximately 200 kilometres of distribution pipeline serve rural subdivisions and intensive livestock operations.

During the year, the company extended a distribution pipeline to Camrose County, southeast of Edmonton, to serve the hamlets of Round Hill and Kingman. An additional 41 customers were added along the existing distribution system.

For the third consecutive year, CU Water employees completed the year with both zero lost time injuries and zero preventable vehicle collisions.

The Northwest Territories and the Yukon are envisioned to be the next frontiers for significant development and growth in Canada. Yukon Electrical and Northland Utilities are poised to be part of this vision.

Yukon Electrical
An ATCO Company

At Yukon Electrical Company Limited, work is ongoing to develop and implement a new billing system for the "North of 60 companies," including Yukon Electrical. It will offer more than 15,000 customers more options and enhance their existing billing services.

Northland Utilities
An ATCO Company

Northland Utilities completed year three of the eight-year 25-kV conversion of the distribution system in Yellowknife.

In Hay River, Northland Utilities assumed a lead role in the "Blue Ribbon Campaign," in honour of fallen RCMP Constable Chris Worden. The campaign was a tribute to his family and in appreciation of the RCMP. Northland staff placed blue ribbons on nearly 100 streetlight poles in downtown Hay River leading towards the Worden residence.

ATCO Pipelines

ATCO Pipelines owns and operates approximately 8,400 kilometres of pipelines and has 236 receipt points on its system.

ATCO Pipelines continued to experience significant increases in its capital expenditures with an $87 million capital program in 2007. This level of capital commitment was required to ensure that the capacity and integrity of its pipeline system was sufficient to meet peak day requirements for the growth of the distribution market and industrial demand.

In addition, the increased infrastructure work undertaken by governments and other large-scale projects by the oil and gas industry required ATCO Pipelines to relocate its existing facilities on an ever-increasing scale. One of the major pipeline relocations took place on the Muskeg River pipeline system to accommodate the expansion of the Albian Sands mining operation near Fort McMurray.

In February, ATCO Pipelines completed a $16.3 million Hinton-Wabamun expansion project near Hinton that resulted in 50 million cubic feet per day (Mmcfd) in new, incremental firm service receipts at the Fishnet Meter Station. The project involved an expansion of the station, 11 kilometres of new 323 millimetre pipeline, a new compressor station at Sundance, and a new meter station and tie-in with NOVA Gas Transmission Ltd. near the town of Edson.

ATCO Pipelines continued to develop infrastructure to accommodate upgraders, petro-chemical and power generating growth in the Alberta industrial heartland region, one of ATCO Pipelines' key customer areas. In 2007, the preliminary design work for the relocation of a number of pipelines within its system in the Fort Saskatchewan area was completed to accommodate the expansion of one of these upgraders.

Construction of a natural gas delivery meter station for a new power generating station located on the east side of Edmonton was completed and preliminary design work has commenced to supply natural gas to a new power generating unit to be constructed in the Lake Wabamun area, west of Edmonton.

To accommodate continued growth, ATCO Pipelines began construction of a new building in east Edmonton. When completed in mid-2008, the 29,000 square foot facility will accommodate more than 175 people currently located in Edmonton to better serve customer needs. ■

Above: *ATCO Pipelines owns and operates natural gas transmission facilities throughout Alberta and is an integral part of the provincial gas transmission system.*

COMMITMENT TO COMMUNITY

FOCUSING ON RURAL COMMUNITIES

Enhancing and strengthening the communities where employees work and live is a CU commitment. That pledge is exemplified in a variety of forms and best demonstrated by the meaningful relationships the company has established throughout rural Alberta.

In every corner of the province, CU operating companies are hiring people from the local population and contributing to the quality of life in those communities through numerous investments. By developing meaningful partnerships with non-profit organizations and giving time and expertise, as well as financial support, CU is committed to helping create healthy, vibrant Alberta communities. The Company supports hundreds of projects and programs every year.

CU focuses on sustaining organizations or causes that support the following key areas: Health and Welfare; Community Development; Arts and Culture; Sports and Recreation; and Youth and Education.

At Viking, 140 kilometres southeast of Edmonton, the Company played a key role in rebuilding the Carena Complex that was severely damaged by fire in 2005. The facility serves as a hockey arena and community focal point. The new building, opened in August 2007, features the ATCO Community Corner in this dynamic facility that serves as an important gathering area for residents.

In 2007, ATCO Gas became centralized in Viking with a new District Operations Centre. ATCO Gas operates 62 agency offices across Alberta and, with the help of employees in these offices, the company supports valuable community efforts that help youth, protect the environment and support the sustainability of rural Alberta.

ATCO Power is also working to enhance Alberta's rural communities. The company contributed to the lifestyles of elderly people in Hanna, 215 kilometres northeast of Calgary, by donating new computers to the Hanna Senior Citizens Lodge.

Left: ATCO Midstream employees participate in the Heart and Stroke Foundation's annual "Big Bike" Fundraiser at the Eau Claire Market in Calgary. 2007 marked the eighth year ATCO Midstream employees have taken part in the event.

Right: The people of ATCO I-Tek embody the spirit of ATCO Employees Participating in Communities (ATCO EPIC), giving their time, talents and resources throughout the year to make a difference in their communities. Employees joined President Bobbi Lambright at Norwood Elementary School in Edmonton's inner city spending time with students and helping teachers deliver programs.

ATCO Energy Theatre, a new ATCO Gas/ATCO Electric initiative, is a safety education commitment involving a play that toured rural Alberta. Teaching approximately 10,000 students about gas and electric safety, the free-of-charge production visited 22 rural communities in November alone with stops in communities along Highway 16 west and east of Edmonton, north to High Level and Fort McMurray.

ATCO Gas served as a Gold Sponsor at the Alberta Senior Games held in Fort Saskatchewan, northeast of Edmonton, this past summer. The Games are a premier multi-sport and cultural event that drew 1,200 participants from around Alberta.

ATCO Gas also made a commitment to post-secondary education in Alberta by helping to finance Lakeland College's expansion of its Lloydminster and Vermilion campuses.

ATCO's commitment to communities was recognized in 2007 as recipients of the Alberta Wild Rose Foundation's 2007 Corporate Volunteer Awards of Excellence (Large Business). This recognition personifies the Company's strong belief in being an active participant in the communities where it operates. (See story on page 19).

Above: Leanne Norman (left) and Nieves Manaois from the ATCO Power Calgary office were part of a volunteer group that sorted food at the Calgary Interfaith Food Bank as part of a Days of Caring event held in October. Days of Caring events are employee volunteer opportunities arranged through the ATCO EPIC program, allowing employees to actively participate in community support events.

Below: Rachel Bowron (left), Codie Mitchie (centre) and Jenna Dykes, graduates of Edmonton's Grant MacEwan Theatre Arts program, are ATCO Energy Theatre's dynamic three-person acting troupe. ATCO Energy Theatre uses "edu-tainment" to teach young children about natural gas and electricity, their hazards and how to avoid harmful situations.

In addition to corporate initiatives, the Company supports its people by contributing funds donated to charities selected by employees. ATCO EPIC raised money for more than 450 communities and charities. The Company further sustains this employee-led initiative by enabling employees to oversee the various program elements.

"Our people strive every year to increase support for Alberta charities and community service organizations. In true testament to their efforts, more money was raised in 2007 than ever before," said Siegfried Kiefer, Managing Director, Utilities.

Participation in community programs is encouraged and supported through the Employee Volunteer Recognition Program – where an employee contributing 50 hours of volunteer effort receives up to $150 for the registered charity of their choice.

In Canada's North, ATCO and Yukon Electrical partnered in a unique initiative to restore MV Dorothy, a 33-foot, wood sailing vessel that dates back to 1933. The vessel played a significant role in Yukon's history.

A highlight for the year included CU's involvement in the 2007 Canada Winter Games in Whitehorse in February. It was the first time this national sports showcase was held "North of 60." ATCO I-Tek provided desktop and laptop computers for staff and operations. Yukon Electrical Limited, which has powered Whitehorse since 1901, supplied electrical services and ATCO Structures was the exclusive supplier of temporary modular units on-site.

Continuing with the tradition of supporting athletes to achieve the highest standards and to showcase the Company's commitment to excellence, ATCO is an official sponsor to the 2008 Arctic Winter Games in Yellowknife, NWT.

- ATCO Structures – providing modular showers and washroom units for the expected 2,000 athletes, as well as units at various event locations.
- ATCO I-Tek – donating 100 laptops for use by Games officials and in ATCO Connect Cafés for athletes and their families. The computers will remain in local community schools after the Games.
- Northland Utilities – providing electrical services as required.
- ATCO Frontec – volunteering in various roles to support the community.

Unique to the Games will be the equal profile given to the 'cultural component' of which ATCO is the presenting sponsor. With eight locations around Yellowknife featuring photography, film making, performance, and sculptures created from recycled material, the Games are a celebration of Art and Sport and ATCO's employees in Yellowknife are pleased to be a part of the 20th Anniversary of the Arctic Winter Games. ■

Above: Employees celebrate their ATCO EPIC fundraising efforts for Alberta charities and communities. From left to right are: Marcene Jacobi, ATCO Pipelines; Siegfried Kiefer, Managing Director, Utilities; Kim Simon, ATCO Gas; Sue Hagen, ATCO I-Tek; and Glen Sutton, ATCO Electric.

CANADIAN UTILITIES' COMMITMENT TO COMMUNITY

SYMPOSIUM AMONG HUNDREDS OF INITIATIVES

On April 10, 2007, more than 100 local government and community leaders gathered at the Hanna and District Community Centre in southeast Alberta to attend ATCO's eighth annual Community Symposium entitled Vision for the Future: Building a Vibrant Organization.

Hosted by the Town of Hanna in partnership with ATCO Gas, ATCO Electric and ATCO Power, the leaders were on hand to learn how to build better lives for the people and the organizations they serve.

Two days later, in the village of Kitscoty, half-way between Edmonton and Saskatoon, another 134 leaders attended a similar session to hear experts provide insights on recruitment, technology, partnerships and a variety of best practices to help build a great organization in an era of unprecedented change.

"Volunteers and volunteer organizations enrich community life," said Pat Burns, Mayor of the Town of Hanna, noting his community was very pleased to "host a symposium on a subject so important to community life in Alberta."

For supporting symposiums in rural areas, the Hanna Learning Centre nominated the companies for the province's Corporate Volunteer Award of Excellence, established by the Government of Alberta and the Wild Rose Foundation to honour and recognize the contributions of private sector corporations, businesses and their people.

As he presented the Large Corporation 2007 award to ATCO, Hector Goudreau, Minister of Tourism, Parks, Recreation and Culture, said: "Across the province, companies and businesses are embracing what it is to be a responsible corporate citizen and are giving back to the community in many important ways. This year's Corporate Volunteer Awards of Excellence winners have shown outstanding commitment and contribution to community building."

Community and capacity building are integral to how Canadian Utilities conducts business. Almost all attendees this year were satisfied with what they learned. More than 90 per cent said it was an effective program to build leadership capacity.

"ATCO Gas and ATCO Electric have a long history of supporting rural Alberta and the people who live and work there," said Sett Policicchio, President, ATCO Electric. "This year's symposiums provided community members a terrific opportunity to share information and network with other people who have had success preparing their organizations for the future."

POWER GENERATION

"Power Generation had a very good year in terms of health and safety recognition, earnings, and major **progress** in our **growth** areas."

Dick Walthall, Managing Director, Power Generation

Appointed to the role in 2006, Dick Walthall, with 19 years of ATCO experience, leads the Power Generation division as its Managing Director.

ATCO Power

- Develops, constructs, manages, owns and operates technologically advanced and environmentally progressive independent power generation plants
- Approximately 500 employees
- Operates 19 power plants in Canada, the United Kingdom (U.K.) and Australia with a combined capacity of more than 4,800 MW

ASHCOR Technologies

- Markets coal combustion products from ATCO Power's coal-fired generating stations in Alberta
- The predominant product marketed is fly ash – the non-combustible residue remaining after coal is consumed in a power plant furnace

ALBERTA MERCHANT MARKET AND DIVERSE OPERATIONS BOOSTS POSITIVE EARNINGS GROWTH

ATCO Power

In 2007, the Power Generation division experienced positive earnings growth. This is primarily as a result of continuing strong returns from the Alberta merchant market (albeit lower than in 2006), good availability of the Alberta generating stations, the success of ATCO Power's Australian operations (see story on page 24) and no negative HR Milner tax adjustment as recorded in 2006.

ATCO Power also spent considerable effort in 2007 focusing on its long-term growth plan with a goal to continue developing projects with lower carbon intensity for its portfolio.

The company received provincial and national recognition for its focus on safety: a Bronze Medal of Excellence from the Canadian Electricity Association for employee safety and – for the third consecutive year – a Work Safe Alberta Best Safety Performer Award.

Numerous human resource initiatives were started, including an innovative 'New Graduate Program' which involves a 20-month rotation through different jobs to find the best possible career placement.

Above: ATCO Power's 45-MW Valleyview Generating Station, commissioned in 2001, provides system support in northwestern Alberta. Valleyview 2, a 45-MW expansion, is currently under construction adjacent to the original facility and is expected to be completed in the fall of 2008.

CANADIAN OPERATIONS

During the year the 760-MW Sheerness Generating Station received environmental approval to operate for the next 10 years, demonstrating ATCO Power's substantial commitment to operational excellence and community consultation.

In May, ATCO Power announced it will build a second unit for the gas-fired Valleyview Generating Station. The 45-MW 'peaking' facility is designed to solidify provincial grid stability, while providing quick access to additional power when needed.

The project demonstrates ATCO Power's commitment to the deregulated Alberta marketplace by increasing capacity in the fast-growing area of northwest Alberta. The station is capable of producing enough electricity to power more than 36,000 homes and is the 10th power generating unit built by ATCO Power in Alberta since 1997. The expected commercial operation date is in the fall of 2008.

The 32-MW Oldman River Hydro Project is an environmentally progressive, 'run-of-river' hydroelectric generating plant developed at the Oldman River Dam near Pincher Creek, Alberta. The plant is 60 per cent owned by ATCO Power and 15 percent by ATCO Resources Ltd. In July the Piikani Nation of Brockett, Alberta exercised its option to purchase a 25 per cent ownership interest in the facility.

U.K. OPERATIONS

Through its Thames Power subsidiary, ATCO Power is the operator of the Barking Power Station in the U.K. In May, agreement was reached with the station's bankers that enabled a significant pre-payment of debt principal, resulting from the settlement of the company's claim against the administrators of TXU Europe.

During the first nine months of the year, the station performed exceptionally well with very high levels of availability. In October, a generator failure caused one combined cycle gas turbine block to be shut down for remedial repairs. This unplanned outage reduced the output of the plant by approximately 60 per cent.

A number of environmental initiatives were implemented in partnership with the local authorities in London, including a commitment to waste reduction. In addition, the Thames Gateway, a designated development zone in East London, is studying proposals to use heat from the Barking Station to supply a planned district heating network.

The environmental license to operate the station was renewed in 2007, for the first time since commissioning in 1995, in order to conform to new legislation. In December, planning consent for a proposed 470-MW expansion of the Barking Power Station was received from the U.K. government.

AUSTRALIAN OPERATIONS

The ATCO Power operated plants in Australia, Osborne Cogeneration Station in Adelaide and the Bulwer Island Cogeneration Station in the BP Refinery in Brisbane, exhibited strong performances in 2007.

Osborne conducted a $1 million (Australian dollars) upgrade to increase electricity output and further implemented a significant water conservation project in 2007. Details on these initiatives are outlined in the enclosed Environmental Stewardship feature – page 3.

ASHCOR Technologies

ASHCOR Technologies had another record year marketing coal combustion products from ATCO Power's coal-fired generating stations in Alberta. The predominant product marketed by ASHCOR is fly ash – the non-combustible residue remaining after coal is consumed in a power plant furnace.

During the year, the company expanded ash utilization in road base materials, hazardous waste solidification and as an extender in asphalts. ASHCOR established its presence in the Pacific Northwest marketplace through a number of strategic alliances and began facility upgrades in order to meet the increasing demand for fly ash. ■

ATCO POWER FACILITIES - AT A GLANCE

Refer to table on facing page for Power Facilities listing

ATCO POWER FACILITIES — IN DEPTH

	LOCATION	COMMISSIONING DATE	PLANT GENERATING CAPACITY (MEGAWATTS)	FUEL TYPE	CU OWNERSHIP (%)
	IN ALBERTA:				
1	Battle River 3, 4, 5, Generating Station, Forestburg	1969 1975 1981	670	Coal	100%*
2	Sturgeon Generating Plant, Valleyview	1957	18	Natural gas	100%*
3	Rainbow Lake 1, 2, 3, Northern Alberta	1968	88	Natural gas	100%*
4	Sheerness 1, 2, Generating Station, Hanna	1986 1990	760	Coal	50% *
5	Poplar Hill Generating Plant, Grande Prairie	1998	45	Natural gas	80%
6	Primrose Cogeneration Plant, Northern Alberta	1998	85	Natural gas	40%
7	Rainbow Lake 4, 5, Northern Alberta	1999 2001	90	Natural gas	40%
8	Joffre Plant, Central Alberta	2000	480	Natural gas	32%
9	Valleyview Generating Station	2001	45	Natural gas	80%
10	Muskeg River Cogeneration Plant, Athabasca Oil Sands	2003	170	Natural gas	56%
11	Scotford Cogeneration Plant, Scotford	2003	170	Natural gas	80%
12	Oldman River Hydro Project Pincher Creek	2003	32	Run-of-river hydroelectric	60%
	IN BRITISH COLUMBIA:				
13	McMahon Cogeneration Plant, Taylor	1993	120	Natural gas	50%
	IN SASKATCHEWAN:				
14	Cory Cogeneration Plant, Saskatoon	2003	260	Natural gas	40%
	IN ONTARIO:				
15	Brighton Beach Generation Station, Windsor	2004	580	Natural gas	40%
	IN AUSTRALIA:				
16	Osborne Cogeneration Station, Adelaide, South Australia	1998	180	Natural gas	50%
17	Bulwer Island Cogeneration Station, Brisbane, Queensland	2001	33	Natural gas	50%
	IN UNITED KINGDOM:				
18	Barking Power Station, East London	1995	1,000	Natural gas	25.5%
19	Heathrow Airport, London	1990	14	Natural gas	50%

* CU ownership held by Alberta Power (2000) Ltd.

THRIVING DOWN UNDER

ATCO POWER BENEFITS FROM INNOVATION IN AUSTRALIA

Over the past 10 years, ATCO Power has partnered in innovative, environmentally progressive power plants near Adelaide and in Queensland, Australia, an adroit business decision for Canadian Utilities Limited and its shareowners.

The 180-MW Osborne Cogeneration Plant, a joint venture between ATCO Power and Origin Energy of Australia and commissioned in December 1998, consists of a 120-MW gas turbine and a 60-MW steam turbine, fuelled by natural gas from South Australia's Cooper Basin. A second project, the Bulwer Island Cogeneration Plant, serves the electric and thermal energy needs related to the expansion of BP's Bulwer Island refinery in Queensland.

The Osborne Plant is Canadian Utilities' principal investment in Australia and exemplifies the environmental benefits of advanced technology.

Osborne Cogeneration Plant Adelaide, South Australia

It is 50 per cent more efficient than a conventional gas or coal-fired power station, reducing nitrous oxide emissions by at least 80 per cent and carbon dioxide emissions by 35-50 per cent.

"As a cogeneration plant, thermal efficiency is much higher and emissions are significantly lower than the traditional power plants that preceded Osborne, plus we spent $1 million installing upgrades into our gas turbine in September 2007 that further improved efficiencies and lowered emissions by 1.5 per cent," explains Geoff Walshe, Executive Director, ATCO Power Australia. "Osborne also concluded a water capture and reuse project that saw our town water use drop to less than five per cent of normal. This is particularly significant in Australia where severe water restrictions have been in place due to many years of continuous drought."

Osborne had a strong year due to higher than average availability of the plant.

The Bulwer Island Plant, commissioned in 2001, has also gained recognition as part of the Queensland Clean Fuels Project that won the 2001 Australian Construction Achievement Award. Bulwer Island had a prosperous year due to a high pool price, well above the expected average for the year, and almost full-bonus availability.

ATCO Power has profited from a strong and committed staff who have excelled amid Australia's unique challenges.

"Our people are very committed and respond to emergencies without delay," Mr. Walshe says. "Their flexible approach at work allows tight deadlines to be met and outages minimized."

"Our remoteness is a challenge in both time and space to be connected to ATCO and major equipment manufacturers. Among our staff, we currently have three Australians working long-term in Canada who will enhance our experience and one who has worked in London, U.K," added Mr. Walshe.

ABORIGINAL RELATIONSHIPS

The Company works to build mutually beneficial relationships with Aboriginal communities by developing strategies that provide appropriate opportunities to improve employment and business relations through contracts and joint ventures. Through dialogue, working and living in the same community and encouraging openness in order to earn respect and trust, the following alliances have been formed:

First Nations

- ATCO Frontec and the Fort McKay First Nation partner to build and operate a 500-room Creeburn Lake Lodge in the Oil Sands region north of Fort McMurray, Alberta.
- ATCO Electric interfaces in northeastern Alberta with Fort McKay Chipewyan, Athabasca Chipewyan, Mikisew Cree, Fort McMurray and Chipewyan Prairie First Nations on land use and business opportunities.
- Mikisew Cree and Athabasca Chipewyan First Nations work with ATCO Electric at the power plant upgrade at Fort Chipewyan, Alberta.
- ATCO Electric is working in northwestern Alberta with nine First Nations communities on right-of-way clearing along the transmission route between Wabasca area and the Peace River region for the new 240-kV transmission line.
- ATCO Power and the Piikani Nation of Brockett, Alberta partner in the ownership of the Oldman River Hydro project near Pincher Creek.

Inuit

- UQSUQ Corporation, a joint venture between ATCO Frontec and Inuit-owned companies in the Arctic, leases and operates the bulk fuel storage facility, the pipeline distribution system and the municipal fuel distribution system in Iqaluit, Nunavut.
- ARCTEC Alaska, a joint venture between ATCO Frontec and Arctic Slope World Services, manages and maintains the Alaska Radar System.
- Torngait Services Inc., a joint venture between Labrador Inuit Development Corporation and ATCO Frontec, provides site services at the Voisey's Bay mine and concentrator operation in Labrador.
- Operating as Nasittuq, ATCO Frontec and Pan Arctic Inuit Logistics operate and maintain 47 North American Aerospace Defence Command (NORAD) radar sites known as the North Warning System located across the Canadian Arctic.
- ATCO Frontec's partnership with Inuit from Labrador, Nunavik, Nunavut and the Inuvialuit settlement regions features a development/apprenticeship training program to enhance skills and formal credentials.

Inuit and First Nations

- ATCO Frontec Services Limited and NASCo (Inuvialuit Development Corp, Nunasi Corp., Denendeh Development Corp., and Yukon Indian Development Corp.) have an agreement for the operation and maintenance of facilities, towers and power generating systems at 157 NorthwesTel microwave sites in the Northwest Territories, Yukon and northern British Columbia.

Aboriginal People

- ATCO Pipelines offers opportunities for Aseniwuche Winewak Nation in a pipeline replacement project at Grande Cache, Alberta.

A number of original paintings featuring traditional Inuit clothing appeared in a 2007 Northern Canada print advertising campaign and are also being featured in signage and on other applications for the 2008 Arctic Winter Games in Yellowknife.

FOUNDATION FOR THE **FUTURE**

PARTNERSHIPS WITH FORT MCKAY AND PIIKANI FIRST NATIONS FORMED IN 2007

ATCO Frontec, a company with two decades of experience building successful aboriginal opportunities from the Arctic to Labrador, formed a new partnership with the Fort McKay First Nation to build and operate the Creeburn Lake Lodge – a much needed 500-room complex now under construction in the booming Oil Sands region approximately 65 kilometres north of Fort McMurray.

In the spring of 2008, Phase One of the Lodge is set to open, offering new accommodation for Oil Sands workers and an array of career opportunities for members of the Fort McKay First Nation – Cree and Dene people – who have lived along the Athabasca River for generations.

"The signing of this joint venture agreement with the Fort McKay First Nation builds on ATCO Frontec's long and unique history of working with Aboriginal communities to create mutually beneficial relationships and projects," said Harry Wilmot, President, ATCO Frontec. "This housing project in the Fort McMurray region brings together the skills and resources of both organizations."

Chief Jim Boucher of the Fort McKay First Nation added: "Creeburn Lake Lodge is yet another example of our continuing efforts to foster new economic partnerships that will provide long-term opportunities and benefits to our people. This partnership complements many of the services that we currently provide through the Fort McKay Group of Companies and our other joint partnerships."

To speed construction, the Lodge is being primarily assembled using top-quality, state-of-the-art modules built by ATCO Structures. Its design allows for future expansion to 1,000 rooms, every one featuring a 26-inch LCD TV/DVD system, high-speed internet, and individual environment controls.

Creeburn Lake Lodge

The Kingfisher is indigenous to the Fort McKay region and is showcased in the logo designed for the Lodge.

• • • • •

ATCO Power created its first-ever joint venture with a First Nation – the Piikani Nation at Brockett, Alberta – to own and operate the emissions-free 32-MW Oldman River Hydro facility in southern Alberta. The Piikani exercised a longstanding option to purchase a 25 per cent interest in the four-year-old, clean power generating facility on the Oldman River Dam. ■

Artist's rendering of the 130,000 square foot Creeburn Lake Lodge.

GLOBAL ENTERPRISES

"The key driver for Global Enterprises' continued success is the incredible **effort** and **dedication** that's shown by all the people in the division."

Michael Shaw, Managing Director, Global Enterprises

With 29 years of service, Michael Shaw leads Global Enterprises as its Managing Director, appointed to the role in 2004.

ATCO Midstream

- Provides natural gas gathering, storage and natural gas liquids solutions to the Canadian natural gas sector
- Approximately 170 employees
- Owns or has interests in 11 natural gas gathering and processing facilities and four natural gas extraction facilities, combined for a processing capacity of more than 1.5 billion cubic feet per day

ATCO Frontec

- A Canadian-based leader known for its excellence in rapid mobilization and provision of services in austere and challenging environments worldwide
- Approximately 1,600 employees
- Operating in more than 20 locations around the world

ATCO I-Tek

- Delivers exceptional billing flexibility, superior customer care, and reliable information technology solutions to a diverse group of clients worldwide
- Approximately 1,000 employees
- Answers more than 1.6 million customer calls each year

ATCO Travel

- Provides clients with superior quality and personalized service in corporate travel management and vacation services
- Approximately 100 employees
- Offices in Calgary, Edmonton, Fort McMurray and Ottawa

NEW PROJECTS AND DIVERSITY SHOWCASED AS IMPRESSIVE EARNINGS GROWTH CONTINUES

ATCO Midstream

ATCO Midstream achieved record earnings in 2007. A combination of strong volume throughput, high plant availability, high liquids prices and storage spreads resulted in a seventh consecutive year of earnings growth.

In December, ATCO Midstream concluded the purchase of a 50 per cent interest in the Grimes Energy Joint Venture gas plant near the town of Kisbey, Saskatchewan as the company continued expansion into that province. Partnering in the purchase of the plant with Bayhurst Energy Services Corporation, a subsidiary of SaskEnergy Incorporated, the plant is licensed to process 2.5 million cubic feet of sour gas daily and includes approximately 22 kilometres of pipeline servicing regional producers.

The Gas Gathering and Processing business unit maintained a high priority on the safe and efficient operation of its processing facilities with an overall on-line availability of more than 99 per cent. A strong marketing focus in southeast Saskatchewan secured additional gas processing volumes and further expansion of the gathering system, including entry into Manitoba.

The Natural Gas Liquids business unit realized record performance in extraction margins over the year. A significant process improvement at the Edmonton Ethane Extraction Plant increased plant throughput and improved ethane recoveries, also contributing to stronger financial performance. Planned maintenance, including a large turnaround at the Empress Gas Liquids Joint Venture, was completed during the year.

Chad O'Hagan is a plant supervisor at ATCO Midstream's Watelet Gas Gathering & Processing Plant in central Alberta.

ATCO I-Tek's consistently high customer satisfaction ratings are a testament to the knowledge, dedication and skill of its team of approximately 1,000 people – people like Ella Kulyk, Operations Supervisor, who provide behind-the-scenes support to the company's call centre operations.

ATCO I-Tek

For the second consecutive year ATCO I-Tek provided ATCO Gas and ATCO Electric customers with the best customer service in North America, as rated by customers in a survey by independent research and measurement company Service Quality Measurement (SQM) Group Inc.

SQM evaluates more than 300 call centres across North America each year and ATCO I-Tek's survey results are assessed against those of others in the energy sector. Not only did ATCO I-Tek earn SQM's "Highest Customer Satisfaction" award, but the distribution call centre also received a Merit Award for a greater-than-eight per cent improvement in First Call Resolution.

"We answer more than 1.6 million customer calls each year on behalf of our utility clients and these awards have again exemplified our commitment to provide exceptional customer service," said ATCO I-Tek President Bobbi Lambright.

In addition to customer care and billing, ATCO I-Tek delivers information technology services to a diverse group of clients that operate around the world. The Customer Support Centre achieved an overall satisfaction rate of 98.6 per cent for problem resolution on client surveys in 2007.

In 2007, ATCO I-Tek implemented two business-critical solutions for ATCO Pipelines: the Measurement and Reporting System and the System for Transportation and Account Reporting. With approximately 1,800 meter locations and more than 250 gas producers, industrial customers and natural gas distribution companies using the system, accurate measurement, reporting and invoicing is vital.

ATCO I-Tek also worked with ATCO Gas to continue replacing its legacy Computer Aided Dispatch system with a progressive, innovative work management solution.

ATCO Travel

ATCO Travel continued its leadership as a full-service travel management company serving corporate clients, the general public and the ATCO Group of Companies. It retained all major accounts in 2007.

ATCO Frontec

In 2007, ATCO Frontec pursued new projects in two key areas – site support and camp services, while refining its operational strategy. This resulted in two new major projects – Kandahar Airfield in Afghanistan and construction of the Creeburn Lake Lodge.

CANADIAN ACTIVITIES

In October, ATCO Frontec and the Fort McKay First Nation announced a new 50-50 joint venture partnership to build and operate a 500-room lodge in the Alberta Oil Sands region north of Fort McMurray. (See story on page 26).

In the Northern Operations group, UQSUQ Corporation successfully re-bid a five-year contract with the Nunavut Petroleum Corporation to lease and operate the bulk fuel storage facility, the pipeline distribution system and the municipal fuel distribution system in Iqaluit. UQSUQ is jointly owned by ATCO

Frontec and Nunavut Petroleum, which represents Nunasi Corporation and Qikiqtaaluk Corporation.

The NorthwesTel project in Whitehorse, Yukon renewed its joint venture agreement with the Northern Aboriginal Services Company and its contract to provide operation and maintenance at 157 NorthwesTel microwave sites in the Northwest Territories, northern British Columbia and the Yukon for another 10 years.

ATCO Frontec's Area Support Unit in Ontario successfully re-bid its contract for another three years, effective April 1, 2008, to provide facilities and maintenance to a number of armouries and other military properties in southern Ontario.

In late 2007, ATCO Frontec completed the sale of its Security Services division to Vancouver-based Paladin Security as part of its on-going effort to focus on key areas of growth.

INTERNATIONAL ACTIVITIES

ATCO Frontec was awarded five NATO support contracts at the Kandahar Airfield in Afghanistan for up to five years. (See feature story on page 31).

After completing the first year of a contract to provide camp support and food services for the United Nations Mission in Kosovo, ATCO Frontec exceeded expectations and was awarded a new contract to provide catering and camp services to four camps in Kosovo.

ATCO Frontec's European office in Csomád, Hungary is now included in the company's ISO 9001:2000-registered Quality Management System. ISO registration has enhanced the ability to manage existing contracts and respond to opportunities. ■

ATCO Frontec operates and maintains facilities, power generating systems and towers, like this one shown on the Dempster Highway in the Yukon.

PURVEYOR OF **INTERNATIONAL SUPPORT**

ATCO FRONTEC BOLSTERS MILITARY OPERATIONS WORLDWIDE

ATCO FRONTEC CONTINUES TO BOLSTER ITS EXPERIENCE IN THE PROVISION OF SUPPORT TO MILITARY OPERATIONS WORLDWIDE. WITH CURRENT ASSIGNMENTS IN AFGHANISTAN, KOSOVO AND BOSNIA, AND PRIOR COMMITMENTS THROUGHOUT THE BALKANS, AS WELL AS IN CAPE VERDE, AFRICA AND PAKISTAN, THE COMPANY'S EXPERTISE HAS GROWN EXPONENTIALLY SINCE ITS FIRST FORAY INTO SUPPORTING DEPLOYED MILITARY OPERATIONS WITH THE CANADIAN FORCES IN BOSNIA MORE THAN SEVEN YEARS AGO.

Various organizations, including NATO, the United Nations, the Canadian Forces and the Swedish Armed Forces, have selected ATCO Frontec to provide support services to base operations, large-scale training exercises, and disaster relief projects in remote and challenging locations around the world.

"ATCO Frontec has built relationships with multinational organizations with deployed operations all over the world through proven performance and demonstrated excellence," said Harry Wilmot, President, ATCO Frontec. "The company will continue to pursue new business in this sector and our growing customer base proves our capabilities."

***Above:** At the Kandahar Airfield, ATCO Frontec provides combined air terminal operations and aircraft cross servicing for all military and civilian aircraft that land at the airfield.*

In 2000, the company was the first non-governmental organization awarded a contract from the Canadian Department of National Defence to provide support services to Canada's military – a long-term peacekeeping operation in Bosnia-Herzegovina. This unique project included management of Canadian civilians, local residents and embedded military personnel.

In May 2006, ATCO Frontec was contracted to provide a wide range of site support services to a six-week NATO training mission in the Republic of Cape Verde, Africa. There were 15 NATO countries represented on this exercise and ATCO Frontec provided support services to all of them. The company was also successful in winning its first contract in Kosovo providing catering and camp services to four United Nations Special Police Unit locations throughout the province. In the fourth quarter of 2006 ATCO Frontec was also successful in winning a contract at Camp Victoria, near Pristina, Kosovo, providing facilities maintenance and custodial services to the Swedish Armed Forces.

Elsewhere, at six NATO Stabilization and European Union Force sites located in Bosnia-Herzegovina and Croatia, ATCO Frontec is providing advanced information systems technology operation and maintenance support. This was a three-year contract

Above Left: As part of ATCO Frontec's large-scale mobilization for the Kandahar Airfield deployment, this firetruck is being loaded into an aircraft carrier bound for Kandahar, Afghanistan from Calgary.

Above Right: Supplies and other assets are being loaded from the tarmac at Kandahar Airfield as part of ATCO Frontec's NATO support services.

ATCO FRONTEC MILITARY OPERATIONS WORLDWIDE

awarded to ATCO Frontec in November 2003 by the NATO Communications, Command and Control Agency, and ATCO Frontec has earned the award of each of the two option years to this contract extending services to December 2008.

And in Afghanistan, ATCO Frontec is providing support services including Communications and Information Systems services to the airfield, facilities operation and maintenance to all buildings at the NATO Airport, maintenance of all the NATO-owned equipment and refuelling of aircraft and engineering support to the Kabul Airfield. There are NATO Forces from 26 different countries as part of the International Security Assistance Force (ISAF) stationed at the Kabul Afghanistan International Airport.

"ATCO Frontec had an absolutely fascinating year," said Michael Shaw, Managing Director, Global Enterprises. "We bid on five major projects for NATO at the Kandahar Afghanistan Airfield, where Canadians are playing an incredible role. With a lot of hard work we were successful in winning all of those contracts."

Mobilizing 350 people and $38 million in assets and supplies to Kandahar was not an easy task. The project team was able to overcome some major obstacles in order to achieve the mission of providing the full range of services to the large airfield at Kandahar. Services provided by ATCO Frontec include: Crash Fire Rescue to the airfield and its surrounding infrastructure; Combined Air Terminal Operations and Aircraft Cross Servicing to all aircraft, military and civilian that land at the airfield; Logistic Support Services — supply, maintenance and transportation functions; Facilities Operation and Maintenance and Engineering services to the camp; and all utilities including waste water treatment, waste management, pest control and the provision and distribution of potable and non-potable water." Operating in that theatre is extremely difficult with a great deal of challenges," added Mr. Shaw.

The NATO contracts include the provision of multiple support services for up to five years at the Kandahar Airfield for more than 10,000 troops serving NATO's ISAF. ■

Above: More than 350 ATCO personnel have been hired and deployed to the Kandahar Airfield in Afghanistan to provide a full range of services for more than 10,000 military personnel on site.

ATCO Frontec's Judy Reid has been at the Kandahar Airfield since September 2007, and provided the images for this feature. Judy is a Quality Assurance Auditor, who prior to this role, worked for ATCO in Bosnia for three years. "I feel like I'm making a real contribution by being here," said Judy. "My role is to help ensure that we are doing the work we said we would . . . and that we're doing it well."

Karen M. Watson

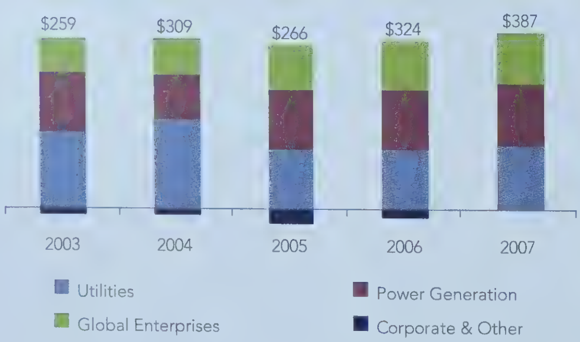
SENIOR VICE PRESIDENT
& CHIEF FINANCIAL OFFICER

Canadian Utilities' record earnings in 2007 of $386.7 million ($3.08 per share) were attributable to all three of the Company's business groups — Utilities, Power Generation and Global Enterprises.

Canadian Utilities' 2007 revenues decreased primarily due to the refund of future income tax balances which also reduced the income tax expense in ATCO Electric. This decrease was partially offset by increased revenue in ATCO Gas and ATCO Midstream.

Canadian Utilities' adjusted earnings in 2007 were $343.8 million ($2.74 per share) compared to $320.8 million ($2.54 per share) in 2006.

Earnings Attributable to Class A & Class B Shares ($ MM)



(1) Adjusted earnings are defined as earnings attributable to Class A and Class B shares after adjustment for items that are not in the normal course of business nor a result of day to day operations. The majority of these adjustments in 2007 related to tax issues. This measure is not defined by Generally Accepted Accounting Principles and may not be comparable to similar measures used by other companies.

(2) Cash is defined as cash and short-term investments less bank indebtedness.

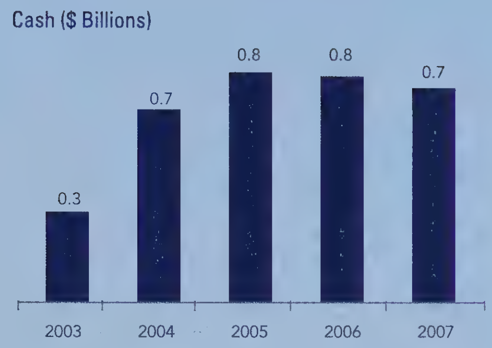
(3) Funds generated by operations is defined as cash generated from operations before changes in non-cash working capital. This measure is not defined by Generally Accepted Accounting Principles and may not be comparable to similar measures used by other companies.

FINANCIAL EXCELLENCE 2007

CONSOLIDATED HIGHLIGHTS	2007	2006
(Millions of Canadian dollars, except as indicated)		
INCOME STATEMENT		
Revenues	2,404.9	2,430.4
Earnings		
Utilities	139.7	121.2
Power Generation	134.7	119.2
Global Enterprises	110.0	101.0
Corporate & Other & Eliminations	2.3	(17.5)
Earnings	386.7	323.9
Adjusted earnings (1)	343.8	320.8
BALANCE SHEET		
Cash (2)	747.2	798.8
Total Assets	7,285.4	6,993.5
Capitalization		
Long Term Debt	2,603.2	2,411.5
Non-recourse Long Term Debt	478.1	626.7
Equity Preferred Shares	625.0	636.5
Share Owners' Equity	2,521.7	2,324.7
Capitalization	6,228.0	5,999.4
CASH FLOW STATEMENT		
Funds Generated by Operations (3)	725.9	657.5
Capital Expenditures		
Utilities	588.9	505.0
Power Generation	49.2	48.1
Global Enterprises	62.7	14.2
Corporate & Other	-	0.4
Capital Expenditures	700.8	567.7
RATIOS		
Return on equity (%)	16.0	14.3
Earnings per share ($)	3.08	2.57
Adjusted Earnings per share ($) (1)	2.74	2.54
Dividends paid per share ($)	1.25	1.40
Equity per share ($)	20.13	18.54
Class A non-voting closing share price ($)	46.40	47.73
Class B voting closing share price ($)	46.00	47.66

Full disclosure of all financial information is available on the SEDAR website - www.sedar.com.

Canadian Utilities' balance sheet remains strong and positions the company for future growth. Cash balances (as defined on previous page) of $747.2 million have remained relatively consistent for the last four years.

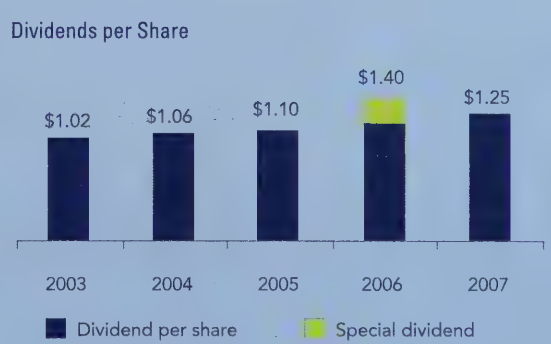


Canadian Utilities share owner's Equity at the end of 2007, including Equity Preferred Shares, was $3.1 billion. The Company's non-recourse debt has also been reduced over the last four years. In addition to regular scheduled payments on non-recourse debt, ATCO Power also applied a $52.7 million payment in 2007 towards the debt on the Barking Power Plant.

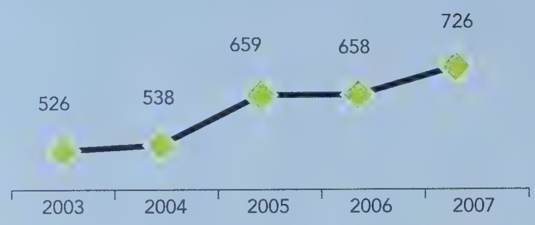
On October 18, 2007, Standard and Poor's increased its rating on Canadian Utilities' senior debt from 'A-' to 'A'.

Return on equity for 2007 was 16.0% compared to 14.3% in 2006. This was achieved even though the regulated utilities are subject to a formula driven return on equity regime that resulted in a rate of 8.51% for 2007. Therefore, the overall Canadian Utilities' rate of 16.0% was driven by results of the non-regulated entities in the Company.

Dividends paid to common share owners were $1.25 per share in 2007. This compares to a $1.15 dividend per share in 2006, excluding the impact of the $0.25 per share special dividend paid in 2006. Excluding the impact of the special dividend in 2006, dividends per share have increased each year since 1972 — 35 years.



Funds Generated by Operations ($ Millions)

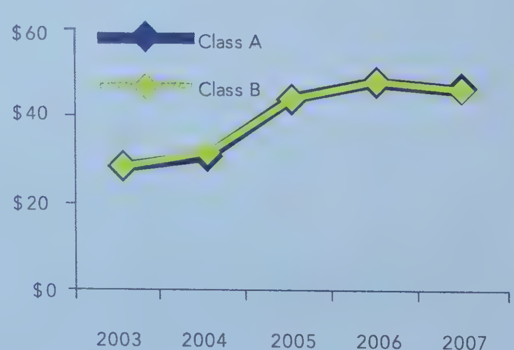


Funds generated by operations increased to $725.9 million in 2007 compared to $657.5 million in 2006. This increase was primarily attributable to higher earnings and increased availability incentives at Alberta Power (2000)'s power generating stations.

Capital Expenditures ($ Millions)

The robust growth in the Alberta economy has resulted in significant growth in total capital expenditures for Canadian Utilities. This growth is primarily attributable to the Utilities Business Group. The total for 2007 was $700.8 million compared to $567.7 million in 2006. Furthermore, capital expenditures to maintain capacity, meet planned growth, and fund future development activities are expected to be approximately $900 million in 2008. The majority of these expenditures are uncommitted and relate primarily to the Utility operations. Capital expenditures for 2008 to 2010 are expected to be approximately $3.0 billion for the Utilities operations.

Share Price



The price of Canadian Utilities Class A and Class B shares, on the Toronto Stock Exchange, closed the year at levels consistent with the prices from the end of 2006. The closing prices for Class A and Class B shares at the end of 2007 were $46.40 and $46.00, respectively, compared to $47.73 and $47.66 at the end of 2006.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation of the consolidated financial statements, management's discussion and analysis of financial condition and results of operations and other financial information relating to the Corporation contained in this annual report. The consolidated financial statements have been prepared in conformity with Canadian Generally Accepted Accounting Principles using methods appropriate for the industries in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in the annual report is consistent with that in the consolidated financial statements.

PricewaterhouseCoopers LLP, our independent auditors, are engaged to express a professional opinion on the consolidated financial statements.

Management has established internal accounting and financial reporting control systems, which are subject to periodic review by the Corporation's internal auditors, to meet its responsibility for reliable and accurate reporting. Integral to these control systems are a code of ethics and management policies that provide guidance and direction to employees, as well as a system of corporate governance that provides oversight to the Corporation's operating, reporting and risk management activities.

The Board of Directors, through its Audit Committee comprised entirely of outside Directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, the internal auditors and the independent auditors to discuss auditing and reporting on financial matters, to assure that management is carrying out its responsibilities and to review and approve the consolidated financial statements. The auditors have full and free access to the Audit Committee and management.

N.C. Southern

PRESIDENT & CHIEF EXECUTIVE OFFICER

K.M. Watson

SENIOR VICE PRESIDENT & CHIEF FINANCIAL OFFICER

February 19, 2008

Canadian Utilities Limited
Consolidated Five-Year Operating Summary

(Millions of Canadian dollars, except as indicated)	**2007**	2006	2005	2004	2003
Utilities					
Natural gas distribution operations					
Purchase of property, plant and equipment	**191.6**	167.4	174.0	154.3	141.0
Pipelines (thousands of kilometres)	**36.5**	35.9	35.4	34.8	34.2
Maximum daily demand (terajoules)	**1,819**	1,861	1,919	2,049	1,831
Natural gas sold [(1)] (petajoules)	**-**	-	-	103	198
Natural gas distributed [(1)] (petajoules)	**233**	219	216	120	32
Total system throughput (petajoules)	**233**	219	216	223	230
Average annual use per residential customer (gigajoules)	**127**	126	131	134	134
Degree days - Edmonton [(2)]	**3,992**	3,819	3,641	3,985	4,245
- Calgary [(3)]	**4,058**	3,910	3,934	3,978	4,291
Customers at year-end (thousands)	**1,001.8**	969.9	939.6	914.3	887.8
Electric distribution and transmission operations					
Purchase of property, plant and equipment	**311.8**	238.1	212.2	223.4	171.6
Power lines (thousands of kilometres)	**70.9**	70.1	69.2	68.0	67.0
Electricity distributed (millions of kilowatt hours)	**10,744**	10,286	9,926	9,910	9,768
Average annual use per residential customer (kWh)	**7,690**	7,495	7,214	7,475	7,261
Customers at year-end (thousands)	**223.0**	216.3	210.9	206.2	202.3
Natural gas transmission operations					
Purchase of property, plant and equipment	**87.1**	97.7	84.3	47.9	33.6
Pipelines (thousands of kilometres)	**8.4**	8.4	8.3	8.3	8.3
Contract demand for pipelines system access (terajoules/day)	**5,143**	5,032	4,830	4,606	4,599
Power Generation					
Purchase of property, plant and equipment	**49.2**	48.1	41.2	77.0	131.7
Generating capacity operated (megawatts)	**4,840**	4,840	4,840	4,840	4,409
Generating capacity owned (megawatts)	**2,467**	2,474	2,474	2,474	2,247
Availability (%)	**91.6**	93.0	92.5	91.9	90.4
Global Enterprises					
Purchase of property, plant and equipment	**62.7**	14.2	11.9	14.5	15.5
Natural gas processed (Mmcf/day)	**478**	480	476	427	399
Natural gas gathering lines (kilometres)	**1,000**	1,000	1,000	1,000	1,000

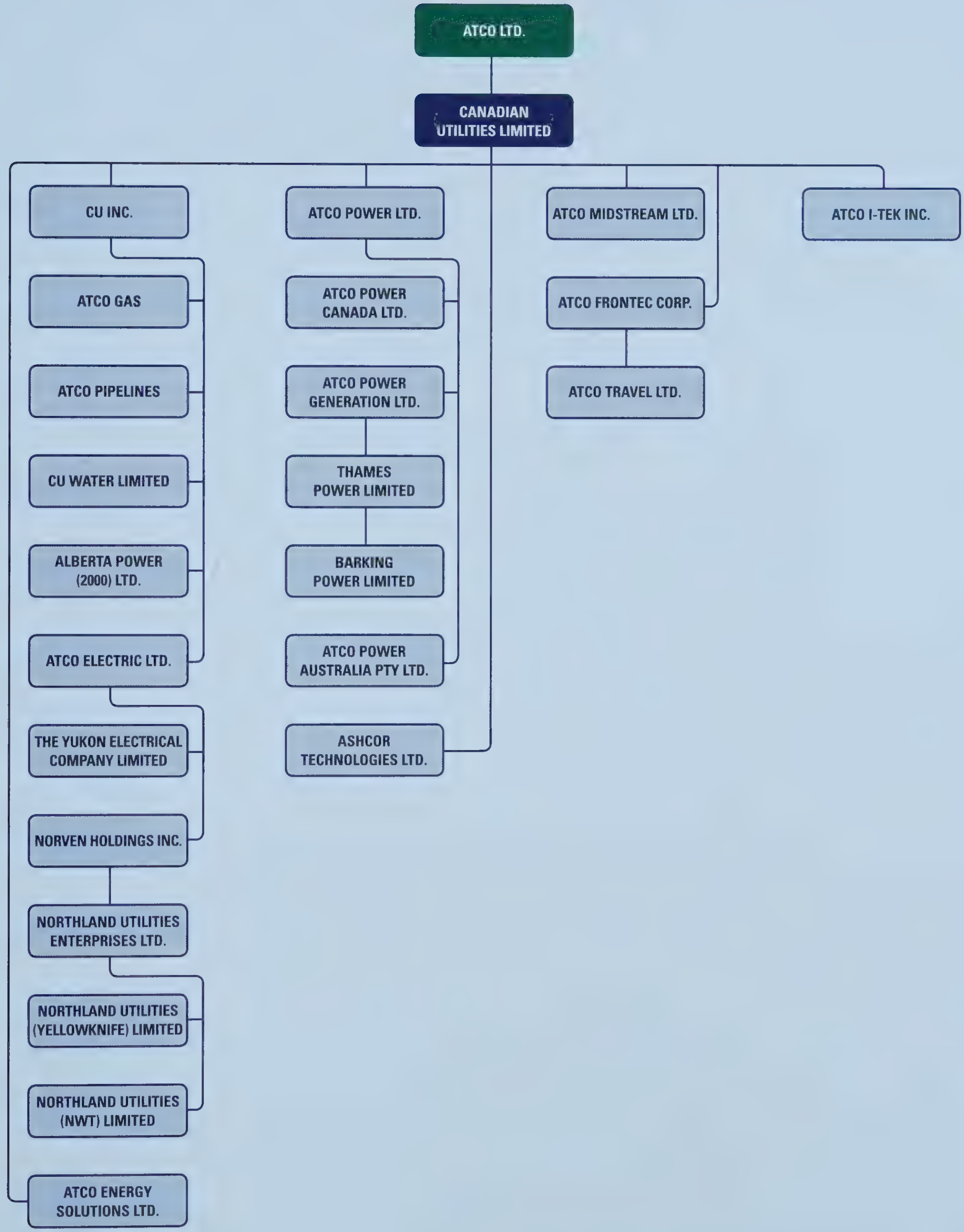
(1) Effective May 2004, with the transfer of the retail energy supply businesses, ATCO Gas' existing sales service customers became transmission service customers.

(2) Degree days - Edmonton - are defined as the difference of the mean daily temperature from 14.5 degrees Celsius.

(3) Degree days - Calgary - are defined as the difference of the mean daily temperature from 15.5 degrees Celsius.

CANADIAN UTILITIES LIMITED

ORGANIZATION CHART



Effective January 24, 2008, ATCO Utility Services Ltd. changed its name to ATCO Energy Solutions Ltd.

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President, ATCO Frontec Corp.

ENVIRONMENTAL STEWARDSHIP 2007

CANADIAN UTILITIES LIMITED
An **ATCO** Company

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An ATCO Company

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ENVIRONMENTAL STEWARDSHIP 2007

ATCO GROUP

Commitment to Environment

"ATCO is taking steps – large and small – to protect, enhance and sustain the communities where we live and work."

We are a unique Alberta-based enterprise, both in our diversity and in the large number of communities that count on us to contribute to improving their quality of life while reducing our environmental impact.

This Environmental Stewardship feature highlights some of our most progressive environmental initiatives. ATCO is taking steps – large and small – to protect, enhance and sustain the communities where we live and work, and that includes a commitment to the environment.

ATCO has led Alberta in the construction of environmentally responsive cogeneration power plants, delivering much-needed new electricity for economic growth, in combination with reductions in greenhouse gas emissions.

We built the emissions-free hydroelectric generating plant at the Oldman River Dam near Pincher Creek, Alberta. We have also taken significant steps to reduce the emissions intensity at our legacy coal-fired plants and within our Utilities division where isolated generating sites are being fully restored.

Working with governments and other partners, ATCO seeks to be at the forefront of sustainable technologies. Several alternative energy projects are being explored, from clean coal generation to hydro power projects. In addition, our companies are nationally recognized for Greenhouse Gas Action Plans to reduce greenhouse gas emissions.

More remains to be done. ATCO is committed to continuous improvement and operational excellence, and I believe that the actions detailed in this Environmental Stewardship feature will provide you with a greater understanding of ATCO's current and future environmental initiatives.

N. C. South

Nancy C. Southern
President & Chief Executive Officer

ATCO Power Continues to **Move Forward**

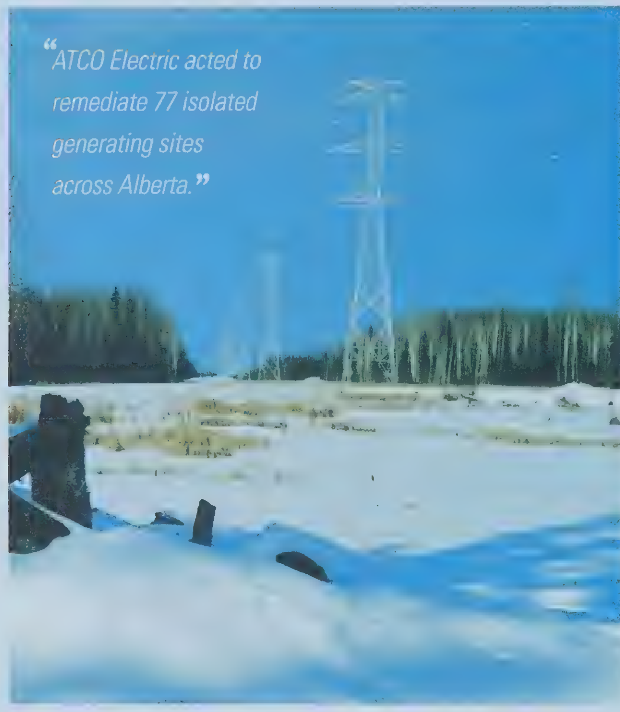
Through participation in the Canadian Electricity Association, Clean Air Strategic Alliance of Alberta and the Alberta Water Council, ATCO Power continues to be an active contributor in the development of frameworks and government regulations to manage environmental initiatives.

These are the steps that ATCO Power has taken to further its environmental stewardship:

- ATCO Power's principal asset in the United Kingdom (U.K.), the Barking Power Station, is implementing a number of environmental initiatives, including a commitment to waste reduction in partnership with the local authorities in London. In addition, the Thames Gateway, a designated development zone in East London, is studying proposals to use heat from the Barking Station to supply a planned district heating network.
- ATCO Power's Osborne Cogeneration Station in Adelaide, South Australia conducted a $1 million (Australian dollars) upgrade during a two-week scheduled outage that increased electricity output by 4.8 per cent and decreased heat rate by 0.94 per cent. This equates to producing the same amount of electricity annually with a reduction of approximately one per cent of the natural gas utilized and 6,000 tonnes of CO_2 emissions.
- The Osborne plant also demonstrated environmental leadership by implementing a significant water conservation project in 2007 in response to severe drought conditions in Australia. Estimated savings are approximately 8.5 million litres of potable water per year.
- ATCO Power also holds a 50 per cent interest in a combined heat and power plant at London's Heathrow Airport. Heat is now being supplied to Terminal 5 from a new steam pipeline connection.
- ASHCOR Technologies, which markets fly ash and other combustion by-products produced at power stations operated by ATCO Power, is establishing a protocol to recognize greenhouse gas and other credits from taking fly ash (which would otherwise be sent to a landfill) and turning it into a usable product for the oil and gas and construction industries. For every metric tonne of cement displaced by fly ash, approximately one tonne less of CO_2 is released into the atmosphere.
- ATCO Power submitted proposals to Alberta Environment in 2007 to monitor and control mercury emissions from the company's coal-fired generating stations by 2010. A full-scale test of the mercury control technology is planned for Battle River Unit 5 in 2008.
- In April 2007, the federal government unveiled its "Action Plan to Reduce Greenhouse Gases and Air Pollution" — proposed legislation scheduled to come into effect in 2010. ATCO Power has been actively involved in working with the federal government and Canadian utility companies to understand and manage the impact of this legislation on the electricity sector.
- Alberta was the first Canadian province to introduce greenhouse gas legislation, effective in 2007. ATCO Power registered baseline emissions for its affected Alberta operations and will submit compliance reports by March 31, 2008.

The Oldman River Hydro Project, which is owned 75 per cent by ATCO Power and 25 per cent by the Piikani Nation of Brockett, is an environmentally progressive, run-of-river hydroelectric generating plant developed at the Oldman River Dam near Pincher Creek, Alberta. The Oldman hydro project produced about 125,000 megawatt hours of electricity in 2007, which offset CO_2 emissions by approximately 80,000 tonnes.

ATCO Electric Works for a **Greener Legacy**



During construction of the Dover-Whitefish transmission line in 2004, ATCO Electric, Aboriginal elders, Alberta Fish and Wildlife officers, and trappers mitigated potential adverse effects to wildlife in the area by creating 70 fur-bearer houses made of piles of wood debris recycled from construction materials.

In 2003, ATCO Electric targeted the clean-up of 77 sites across Alberta. By 2007, remediation on 74 of those 77 isolated generating sites was complete. Work continues at three sites in 2008: Fort Chipewyan, Simonette and Peace River.

Other initiatives implemented by ATCO Electric in 2007 were:

- Continued development of the bird protection plan, with focus on avoiding the collision or electrocution of birds due to ATCO Electric's facilities. Considerable work has been completed on nesting structures, marking lines in areas of high potential collision, and in facilities such as substations, where there is a higher risk of electrocution.
- The construction of two telecommunication towers in northeast Alberta, using less fuel, fewer emissions, and with no fuel storage. Instead of installing a conventional diesel plant operating continuously, ATCO Electric put in a cycle charge discharge system at both sites. This system runs from battery power for 12 hours, and then propane for three hours (during the propane cycle the battery is recharged). This new method reduces fuel consumption by 80 per cent thereby reducing CO_2 emissions.

ATCO Pipelines' Delicate Management of Watercourse Crossings

ATCO Pipelines manages approximately 77 major pipeline watercourse crossings, along with hundreds of smaller crossings of rivers, streams and creeks throughout Alberta. Watercourse crossings are one of the most challenging features of a pipeline project due to their environmental sensitivity and protection requirements.

To mitigate adverse environmental affects, ATCO Pipelines' watercourse crossing policy is formed by three principles:

1. Ensure that the fish habitat and aquatic environment of the water body will not be impacted;
2. Restore the hydrological characteristics in and around the water body to their initial condition after the completion of the crossing; and
3. Maintain the integrity of the crossing with an established monitoring program throughout the life span of the crossing.

The goal of all new pipeline watercourse crossings is to ensure the long-term integrity of the crossing for future generations.

ATCO Pipelines Recognized as a Gold Champion Level Reporter

In March 2007, ATCO Pipelines was recognized as a Gold Champion Level Reporter by the Canadian Greenhouse Gas Challenge Registry for its Greenhouse Gas Action Plan. This is the highest level of achievement possible for the reporting of greenhouse gas emissions in Canada. Since 1994, only 143 companies have achieved the Gold Champion Level.

Attaining the Gold Champion Level required rigorous reporting of all greenhouse gas emissions from operations, plus reductions in greenhouse gas emissions. ATCO Pipelines was able to reduce emissions by increasing the efficiency of compressors used to move natural gas through its system, and also by introducing "zero bleed" pressure control devices. These devices do not release any natural gas during normal operations.

ATCO Electric Emissions Reductions

ATCO Electric continuously looks for opportunities to improve efficiencies in its operations to reduce emissions. The table below provides the emissions reductions and emissions intensity reductions achieved (along with reduced net generation) between 2002 and 2007.

Isolated fossil fuel generation	2002	2007	
Net generation (GWh)	96.9	91.3	5.8 % reduction
Total emissions (ktonnes CO_2 equiv)	86.8	73.4	15.4 % reduction
Emission intensity (ktonnes/GWh)	0.896	0.804	10.3% reduction

ATCO I-Tek Minimizes Electronic Waste and Helps Alberta's Communities

ATCO I-Tek donates all used computers, laptops, monitors and printers to Alberta schools and other community organizations in ATCO's vast service territory. These donations help reduce costs for the school or community organization, while extending the life of the equipment and minimizing electronic waste in the environment. In 2007, the company donated more than 2,900 pieces of equipment to the Alberta Computers for Schools program. ATCO I-Tek also donated computers to the 2008 Arctic Winter Games in Yellowknife, Northwest Territories, the Metis Crossing, the Drumheller Citizen Patrol, and the Boys and Girls Club of Edmonton.

During one of ATCO EnergySense's 43,000 residential energy evaluations conducted in Alberta, Brad Harrison, Energy Advisor, explains to a customer how a blower-door fan operates as part of his comprehensive energy efficiency home evaluation.

ATCO EnergySense – Taking the Lead in Energy Efficiency

ATCO EnergySense provides Albertans with energy efficiency advice and improvement services for their homes and businesses. Established in 2001 by ATCO Gas and ATCO Electric, ATCO EnergySense's team of dedicated professionals helps residential and commercial consumers save money on energy costs, become more energy efficient, and contribute to sustaining the environment.

In 2007, the ecoENERGY Home-Retrofit Program was added to ATCO EnergySense's suite of residential services. Developed by Natural Resources Canada, the program encourages home owners to reduce their energy use and lessen their environmental footprint through a comprehensive energy efficiency home evaluation. The program also offers grants managed by the Government of Canada to home owners who make energy-efficient upgrades.

ATCO EnergySense has conducted almost 43,000 residential energy evaluations in Alberta since October 2001 and commercial energy assessments on more than 400 facilities – the equivalent of about 20 million square feet of facility space. In addition, the cornerstone of ATCO EnergySense's services – the advice and outreach provided to the community – has resulted in more than 128,000 emails and telephone calls handled and almost 330,000 unique visitors to the program's web site, www.atcoenergysense.com.

ATCO Gas a Steward of **Energy Efficiency**

The Drake Landing Solar Community in Okotoks, Alberta officially opened in 2007, contributing to a cleaner environment by reducing greenhouse gas emissions by four tonnes annually in each of the 52 homes.

The community south of Calgary is North America's first large-scale solar seasonal storage system and the first in the world to deliver such a high percentage of space heating (90 per cent) from energy collected through solar panels.

Incorporating advanced thermal technology, ATCO Gas provided project management during the construction of the heating system, and will operate and maintain the system during the four-year commissioning period.

For Drake Landing, ATCO Gas was awarded the Best Project in the Alternative Energy category in 2007 from Energy-TV, sharing this award with its project partners (the Town of Okotoks, Sterling Homes and United Communities), and its funding partners (Natural Resources Canada, Climate Change Central and the Federation of Canadian Municipalities).

In 2007, ATCO Gas continued many other environmental initiatives, including:

- The promotion of natural gas as an alternative fuel for vehicle, forklift and arena applications. The result is much-improved air quality, lower operational costs, and a reduction in greenhouse gas emissions. In Alberta, an additional eight arenas converted their ice resurfacers to natural gas in 2007.
- The phasing out of gasoline-powered fleet vehicles. ATCO Gas operates a fleet of more than 1,000 vehicles; in 2007, nearly 400 were fuelled by natural gas. By 2009, more than 50 per cent of ATCO Gas' fleet vehicles operating in urban centres will be powered by natural gas.

One of the 52 homes in the Drake Landing Solar Community in Okotoks, Alberta.

ATCO Midstream Uses Efficient Technology to Reduce Emissions

ATCO Midstream continued to pursue excellence in environmental stewardship and initiated a number of actions to mitigate the environmental impact of its operations. In February 2007, the company replaced an older compressor unit with a more energy efficient model at Legal, Alberta, resulting in a 37 per cent reduction in nitrogen oxide (NOX) emissions. The company has also initiated a fugitive emissions program which will further reduce air emissions. The program utilizes a portable infrared camera to identify leaks within the process equipment. By using infrared technology, the camera quickly and accurately identifies leaks that would not have been recognized using conventional methods.

ATCO Gas — Estimated CO_2 Equivalent Annual Reduction (tonnes)

1. ENERGYSENSE	2002	2003	2004	2005	2006	2007	Total
Commercial Assessments	7,235	3,921	4,995	5,210	2,231	2,144	25,736
Residential Assessments	11,918	39,516	71,594	40,793	28,637	12,254	204,712
Subtotal	19,153	43,437	76,589	46,003	30,868	14,398	230,448
2. NAIT FUEL CELL							
200 kW Phosphoric Acid Fuel Cell	0	131	782	658	626	600	2,797
3. NGV PROGRAM							
Stations	772	656	647	536	385	302	3,298
Company VRAs	30	33	28	36	25	20	172
Private VRAs	419	412	425	435	412	365	2,468
Subtotal	1,221	1,101	1,100	1,007	822	687	5,938
GRAND TOTAL	20,374	44,669	78,471	47,668	32,316	15,685	239,183

NOTE: All greenhouse gas (GHG) emissions reduced by the ATCO Gas programs listed are converted to their CO_2 mass equivalents.

These three programs reduced greenhouse gas emissions by an estimated 239,183 tonnes since 2002 — the equivalent of taking nearly 57,000 vehicles off the road.

1. With the ATCO EnergySense program, commercial and residential assessments are provided to help customers improve their energy efficiency.
2. Under the Northern Alberta Institute of Technology (NAIT) Fuel Cell program, ATCO Gas invested $1.2 million to develop viable commercial applications for power generated in Canada's first high-voltage, fully operational fuel cell.
3. The Natural Gas Vehicle program enables fleet and private vehicles to operate on cleaner burning natural gas, rather than traditional gasoline. There are currently 300 vehicle refuelling appliances (VRAs) in operation across Alberta.

ATCO's commitment to responsible environmental stewardship ensures a greener legacy for all of the communities ATCO operates in, including the Yukon, home to Yukon Electrical.

ATCO
GROUP

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